Research Corner

August 3, 2020

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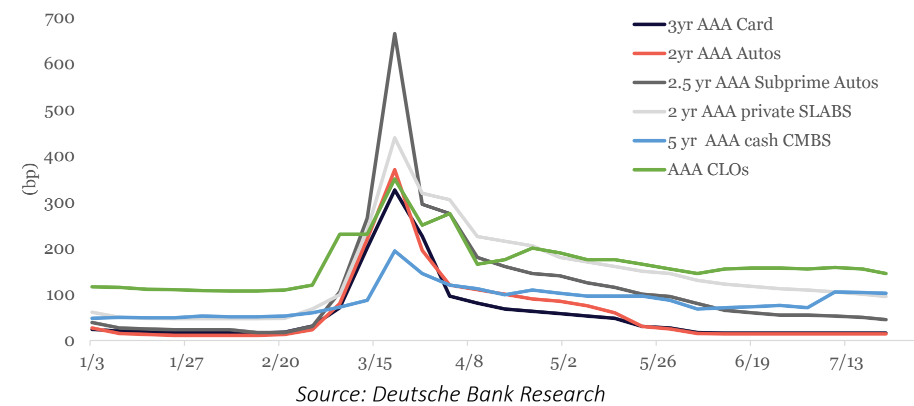
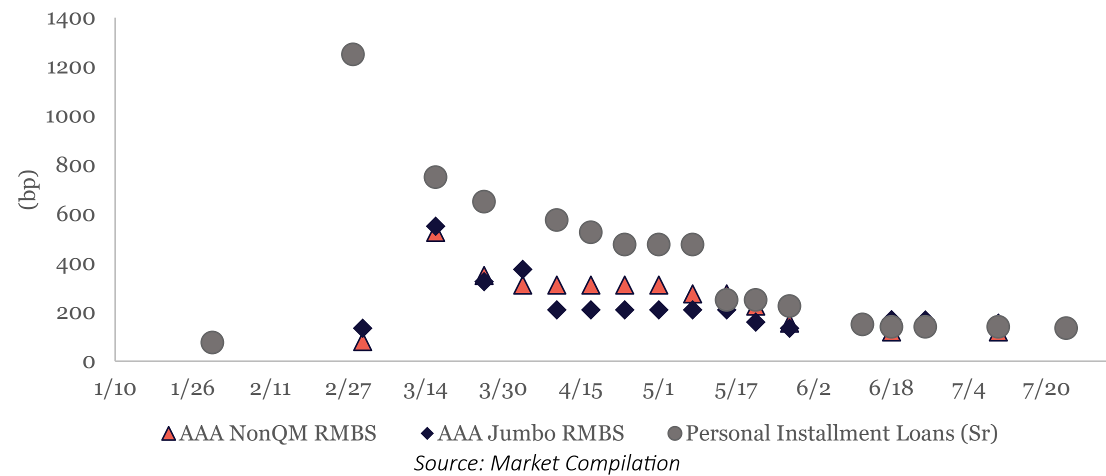
Research Corner - Market Signals

Market summary – Over $12 billion of new securitization bonds came to market in the week of July 20, bringing the month's total to $27 billion. The uptick in activity was welcomed, but new issue volume year-to-date is down by over one-third versus 2019 at this time. Demand for benchmark credit card and prime auto ABS was sufficient to absorb market supply without an increase in price, keeping the bid-ask spread for these products unchanged near the tightest levels of the year. Strong demand for higher yielding products, such as ABS backed by subprime autos and private student loans, as well as RMBS and CLOs, pushed prices up, continuing the tightening trend in the bid-ask spreads for these products. An exception to this trend has been the CMBS market. The spread between CMBS buyers and seller have remained at wider levels as rising delinquencies have given some potential buyers pause.

Secondary Market Spreads

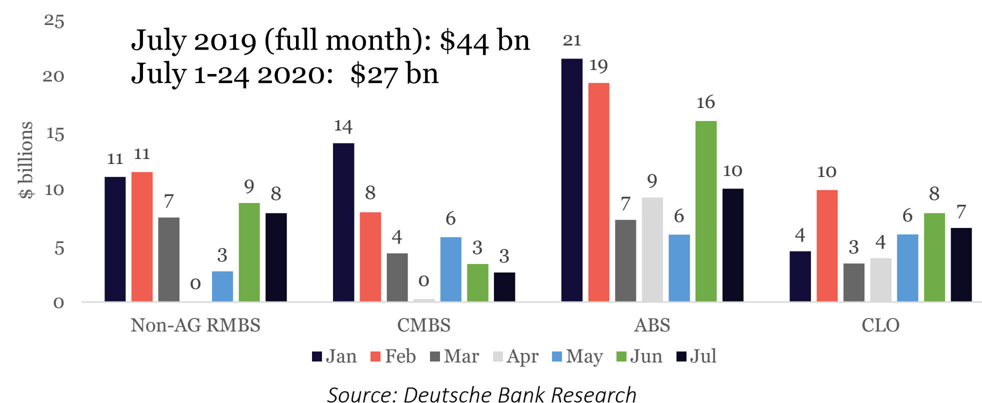


Source: Deutsche Bank Research



Source: Market Compilation

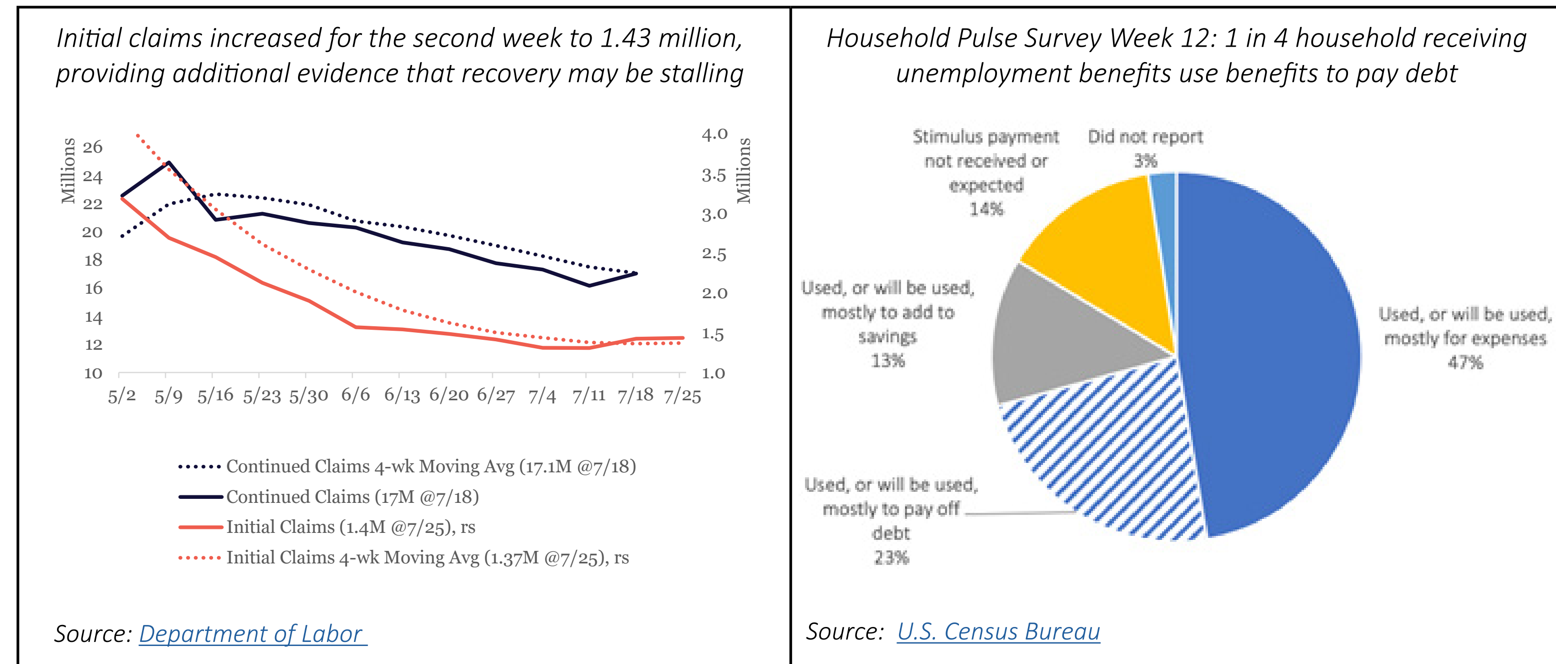
New Issue Activity



Source: Deutsche Bank Research

What We're Watching

What we're watching – For the second consecutive week, initial jobless claims moved incrementally higher, providing further evidence that the nascent recovery may be stalling. For the week ending July 25, 1.43 million Americans newly filed for unemployment benefits. Continued claims rose by 867,000 to 17 million.



Source: Department of Labor

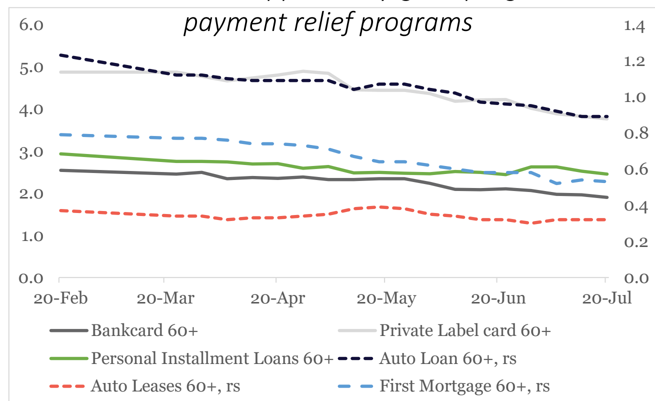
Source: U.S. Census Bureau

Despite higher levels of joblessness, delinquency rates across consumer loans improved by an average of 48 bp from February levels, according to Equifax's National Credit Trends Report as consumers benefitted from pandemic-related government programs. For the week of July 16, 1 in 4 of the individuals responding to the U.S. Census Bureau's Household Pulse Survey have used unemployment benefits towards paying down debt.

Widespread lender accommodation has also helped borrowers through pandemic-related financial hardships. Although the monthly enrollment rate has slowed significantly, the percentage of accounts in payment relief programs rose to unprecedented levels in May and remained at elevated levels in June, according to TransUnion's Monthly Industry Snapshot. As the graph below shows, the take-up rate in payment relief programs differ by asset class – mortgages, autos, and personal loans have higher participation rates than bankcards. This may be due to the size and flexibility of payments as mortgage, auto and personal installment loan payments are fixed and typically larger than credit card payments. Just released second quarter data shows that enrollment in deferral programs have fallen steadily since peaking in April. Additionally, more than one lender has noted that many borrowers continued to make payments while enrolled, providing some evidence that borrowers were requesting relief as an insurance measure during uncertain times and not from immediate need, as borrowers found support and extra cash from stimulus payments, additional unemployment benefits and deferrals of other debt obligations.

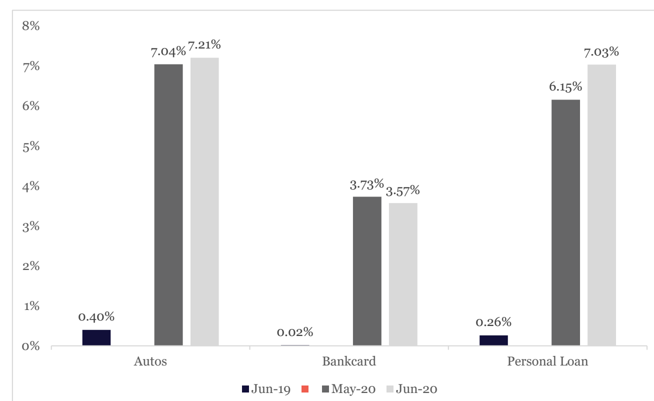
With unemployment remaining persistently high and the extension of whether additional unemployment benefits still unclear, we may see some increase in deferral enrollment in the near-term. However, to the extent economic recovery remains elusive, we may see borrowers continue to fall behind in their debt payments. In preparation for a reversal in credit performance, banks increased credit loss allowances for the second consecutive quarter. Banks with high exposure to unsecured consumer loans reported an even higher increase in loss allowance.

Delinquency rates continued to improve across all consumer loans supported by gov't programs & payment relief programs



Source: Equifax

Percentage of accounts in payment relief programs remains elevated in June



Source: TransUnion

Pandemic-related performance trends are evident in securitized pools. A recent global study by Moody's shows that the share of borrowers in "payment moratorium programs varies widely by asset class, consumer needs, servicer policy and jurisdiction." The rating agency notes that "these differences will play material roles in the size of short-term reductions in the cash flows for transactions and will influence the possible share and timing of borrowers successfully resuming payments." As the effects of COVID-related economic support lessen in the upcoming months, we expect delinquencies and defaults in securitized pools to rise. To what extent they do will depend on the impact that the payment moratoriums have had on the securitized pools; the higher the moratorium rate of a specific pool, the higher delinquencies are likely to rise once the moratorium is over. Below we share Moody's summary of payment moratorium rates by structured finance asset classes and region.

Moody's: Structured Finance Payment Moratorium Rates Varies by Asset Class and Region

Sector	Asset class/region	Moratorium rates
Auto ABS	US prime loans	1-20%
Auto ABS	US non-prime loans	10-33%
Auto ABS	Europe (excl.UK) loans and leases	1-10%
Auto ABS	UK loans and leases	0-22%
Auto ABS	Australia loans and leases	5-20%
Auto ABS	India loans	50-90%
Unsecured consumer ABS	US consumer loans	5-15%
Unsecured consumer ABS	US credit cards	2-8%
Unsecured consumer ABS	Europe consumer lonas	3-4%
US student loan ABS	FFELP	20-40%
US student loan ABS	Private non-refi	15-20%
US student loan ABS	Private refi	5-20%
RMBS	US post-crisis prime jumbo	0-15%
RMBS	US GSE CRT	5-10%
RMBS	US reperforming	5-30%
RMBS	UK non-conforming	14-37%
RMBS	UK BTL	9-37%
RMBS	UK prime	8-52%
RMBS	Italy	1-27%
RMBS	Ireland	8-10%
RMBS	Netherlands	0-1%
RMBS	Australia prime	5-15%
RMBS	Australia non-conforming	15-25%
SME ABS	Italy	0-43%
SME ABS	Spain	0-15%
Equipment ABS	US truck and transportation	25-45%
Equipment ABS	US small-ticket	5-20%

Source: Moody's Investor Services