STRUCTURED FINANCE ASSOCIATION

# Research Corner

September 14, 2020

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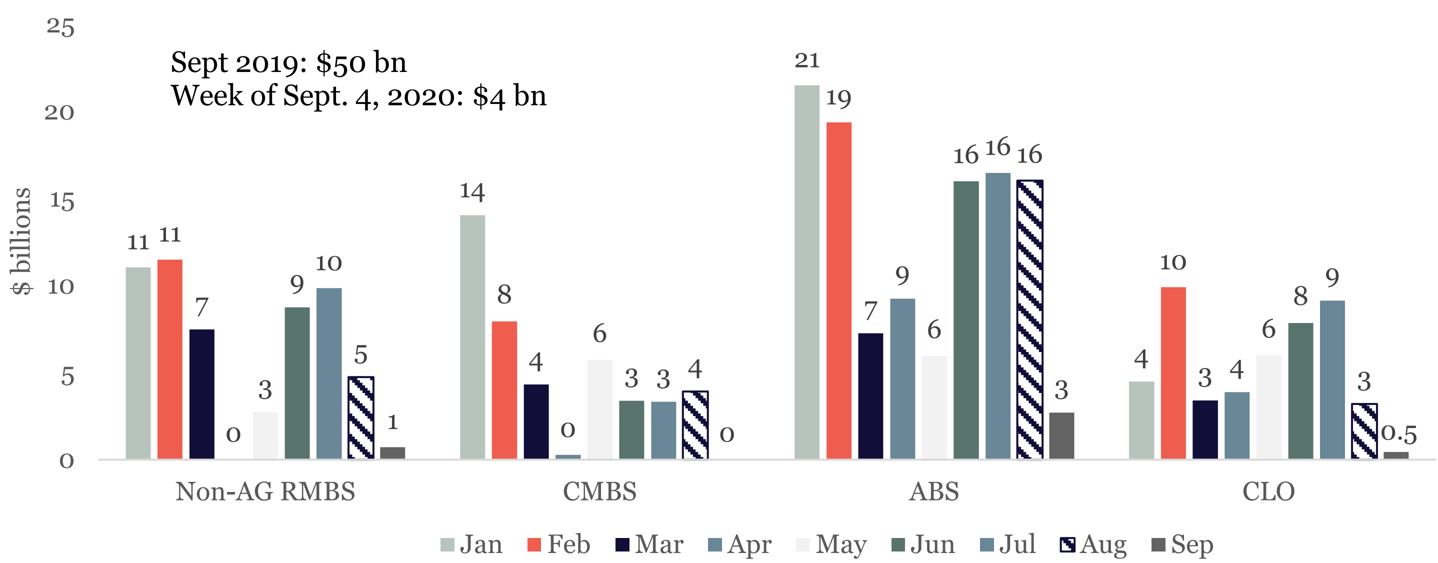
# Research Corner - Market Signals

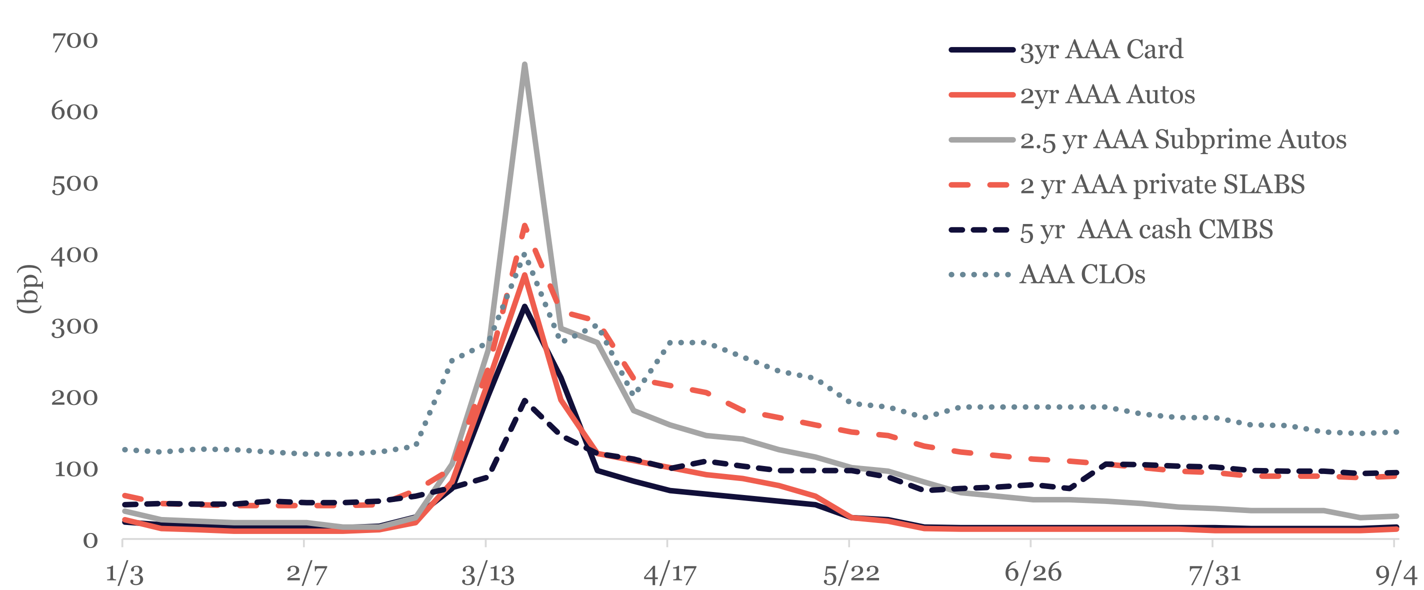
**Market summary** – About $4 billion of bonds backed by non-agency mortgages, consumer loans and corporate leveraged loans came to market in the first week of September. In the secondary market, a shortened holiday week and volatility in the broader equity markets, saw a slight softening in investor demand and, consequently, bond prices. The bid-ask spreads for securitized products across the board inched incrementally (1-2 bp) wider on the week.

## New Issue Activity



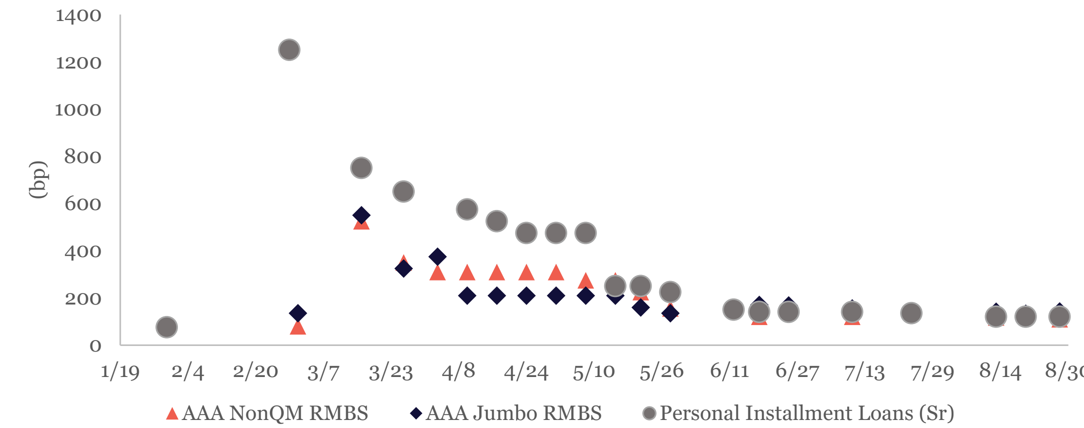

*Source: Bloomberg, Deutsche Bank Research*

## Secondary Market Spreads




*Source: Deutsche Bank Research*

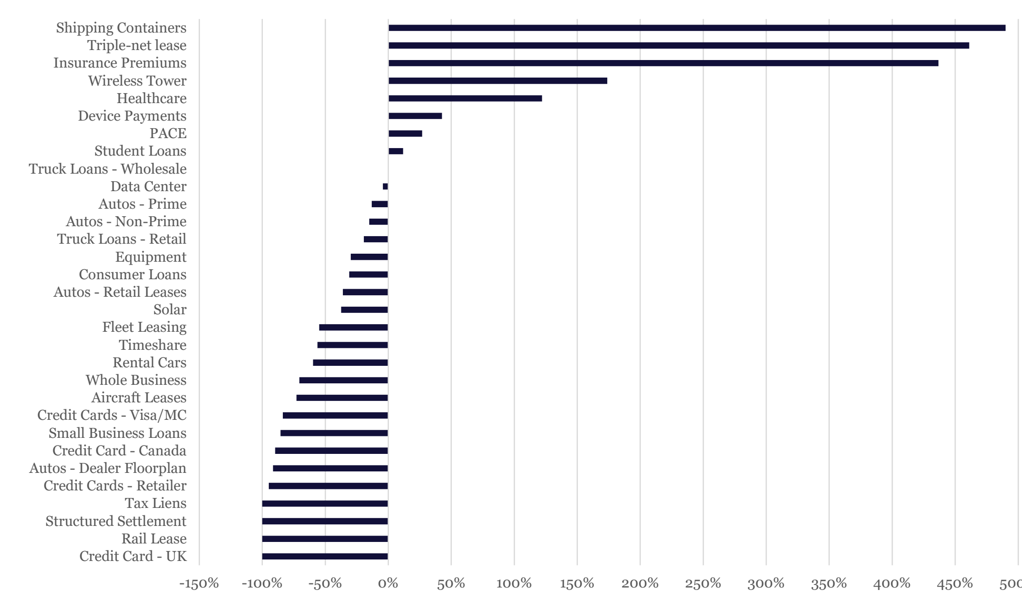
## Secondary Market Spreads




*Source: Market Compilation*

Although the supply of new bonds overall is down by about one-third from 2019, a closer look at the underlying data shows that the decline across asset classes have been far from uniform. For example, in the auto space, which represented a quarter of the ABS bonds issued in 2019, the supply of ABS backed by auto leases and dealer floorplan loans have dropped by 36% and 92%, respectively, while the supply of bonds backed by auto loans is down by only 15%. In the unsecured consumer loan space, the supply of ABS backed by consumer installment loans is down by 31%, but the supply of ABS backed by general purpose credit cards is 84% lower, while credit card ABS backed by retail-specific credit cards is 95% lower. On the bright side, ABS backed by student loans is actually up 12%, driven by refi activity as borrowers take advantage of the low interest rates. Other sectors that have also shown an increase in activity-- ABS backed by PACE (Property Assessed Clean Energy) financings and cell phone payments, which are up 27% and 43%, respectively. Additionally, we have seen significant activity in some of the niche asset classes. The supply of ABS backed by shipping container and railcar leases are up fivefold in the year (To put the level of this activity into perspective, "the volume priced – all in the past five weeks – is just under the total seen during the three years 2017-2019", according to a new S&P report.) Similarly, bonds backed by premium insurance finance loans and triple-net leases of commercial real estate properties (where tenants pay all maintenance, taxes, and insurance) have both jumped by over four times. A new asset class this year is ABS backed by advances on the settlement of legal or medical claims. These asset classes do not contribute a large amount to the overall total ABS supply. However, this activity does indicate how widely accepted securitization has become as a viable funding source and how strong investor demand is for crisis-tested, highly-rated structured securities.

## Year-Over-Year Change in Issuance Volume




*Source: Bloomberg, Deutsche Bank Research*

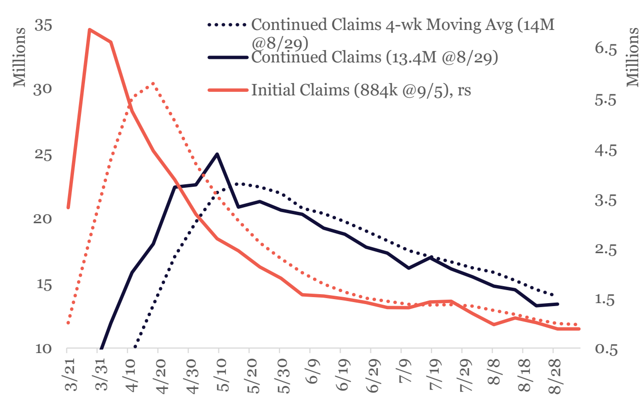
# What We're Watching

**What we're watching** – The Department of Labor reported that seasonally adjusted initial jobless claims for the week ending September 5 was 884,000, unchanged from one week prior. Continued claims rose by 131,000 to 13.4 million. For the week ending August 22, the net number of individuals claiming some sort of unemployment benefits rose by 380,379 from one week ago to 29.6 million. A closer look at the numbers show that the number of Americans claiming pandemic-related assistance rose by 1 million over the week and now represents 54% of the total number of individuals claiming benefits. This number has increased 30% since August 8.

Newly released data from dv01, a data analytics platform, shows that four weeks after the Federal Pandemic Unemployment Insurance program ended, performance on unsecured consumer loans (also referred to as personal installment loans) remains sanguine. "Performance in the consumer unsecured universe continued its dramatic post-COVID recovery in August, unabated thus far by the decline in unemployment stimulus. Total impairments—loans that are either delinquent or are in active modification—fell over 100 bps to 8.9% as of August 25th and have recovered 70% of their COVID-related increase. New impairments were even more impressive, remaining near pre-COVID historical averages, and at similar levels despite the lack of additional stimulus. Furthermore, the impressive performance has been seen across all attributes, particularly amongst the lowest income borrowers, who were in theory most impacted by change in unemployment stimulus." Dv01 attributes this to "healthy debt levels relative to income wealth, as well as historically low debt service ratios" coming into the pandemic.

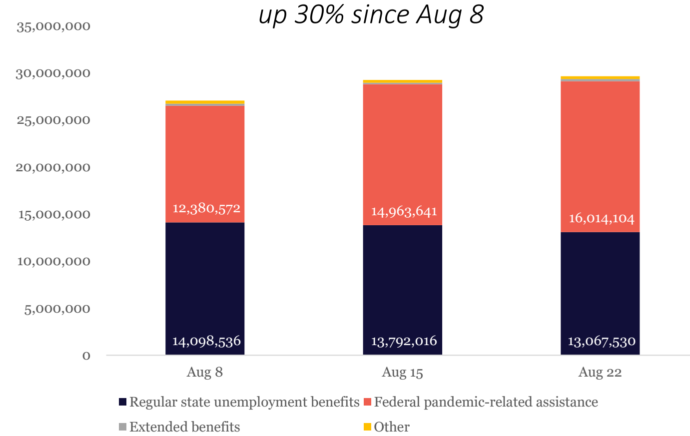
Nonetheless, with many aspects of the economy still uncertain and a tumultuous election season ahead, lenders have been cautious. Overall, origination activity for personal installment loans through August 30 is down 47% overall and down 46% for subprime borrowers versus the same period in 2019, according to Equifax. Indeed, overall origination levels are down across most consumer sectors. The exception to this is the first mortgage product, which has shown a 20% increase in originations overall, but a 27% decrease in lending to subprime borrowers.

*Initial claims unchanged at 884k;*
*Continued claims rise by 131k to 13.4 million*



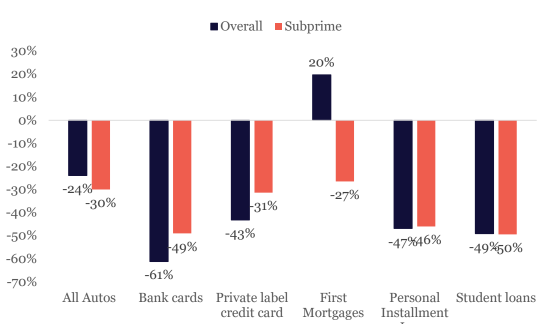

*Source: Department of Labor*

*Individuals claiming pandemic-related assistance up 30% since Aug 8*




*Source: Department of Labor*

*Origination levels through August 30 are down for most consumer sectors, with the exception of mortgages*




*Source: Equifax*