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SFA Research Corner

Support for Households Continue

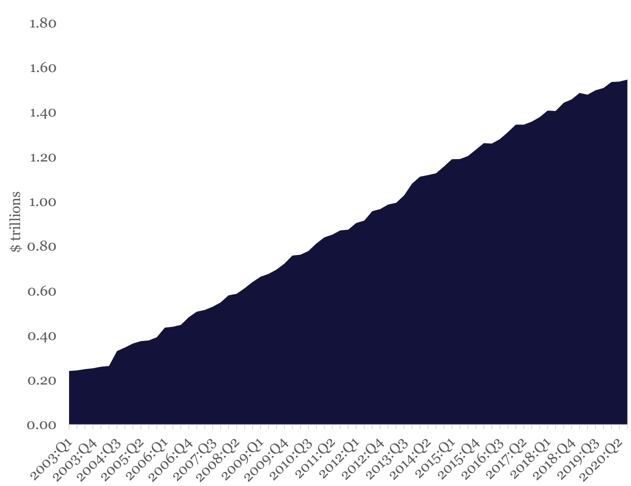
January 26, 2021

WHAT WE'RE WATCHING

On Inauguration Day, President Biden issued an [executive order] extending the payment moratorium on federally owned student loans to September 30, 2021. The payment freeze, which also pauses loan collections and holds interest rates on impacted student loans at 0%, was initially implemented under the CARES Act and was scheduled to end this month. Although the order impacts only student loans held by the Department of Education, the impact on securitized products is positive overall as it frees up $200-300, on average, a month for households to meet other financial obligations or reduce overall debt. President Biden's order is expected to impact 40 million Americans.

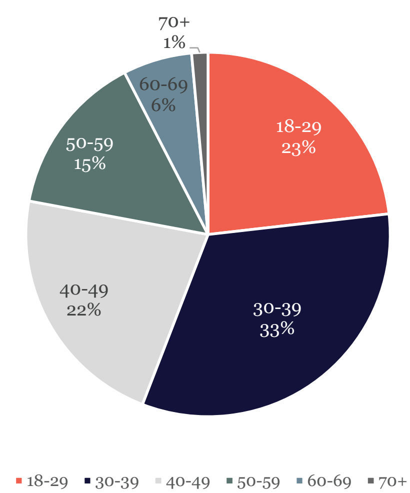
President Biden was focused on student loan relief during his [campaign], calling on Congress to forgive $10,000 of federal student loans per borrower. President Biden has also proposed canceling student loan debt for eligible borrowers and for tuition-free public college for families earning less than $125,000 a year. According to the 2020 Federal Reserve report on the overall [economic well-being of households,] in 2019 43% of people who went to college took on some debt, with the typical amount borrowed between $20,000 and $25,000. Additionally, another 10% took on education debt for someone else's education (e.g. spouse, partner, child, or grandchild). According to the report, borrowers under age 40 who were first-generation college students were more than twice as likely to be behind on their payments as those with a parent who had completed a bachelor's degree.

Student Loan Debt Has Grown To $1.55 Trillion



Source: [New York Federal Reserve]

Student Loan Debt Share by Age



Source: [New York Federal Reserve]

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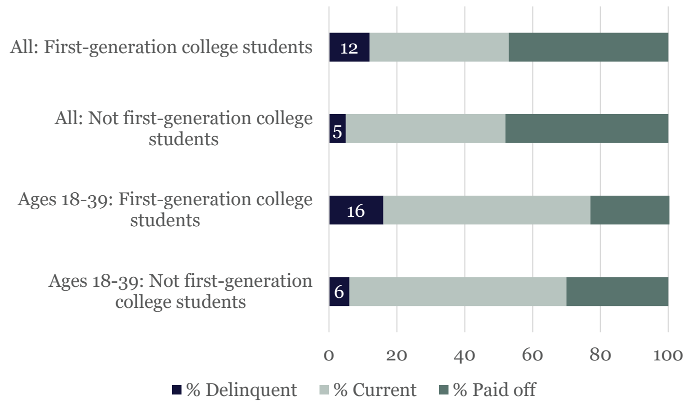
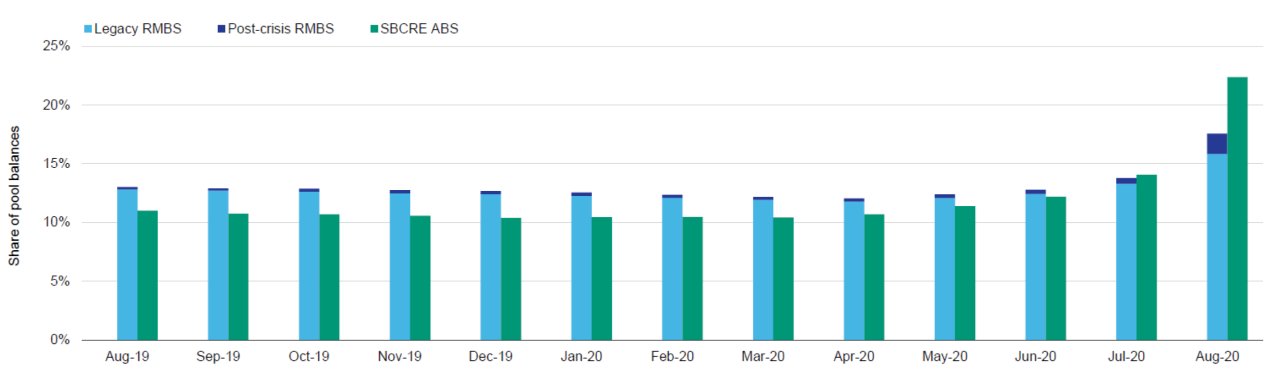
First-Generation College Students at Least Twice as Likely to Be Delinquent on Student Loan Payments



Source: Federal Reserve

The executive order coincided with the FHFA's announcement to extend Freddie Mac's and Fannie Mae's moratoriums on single-family foreclosures and real-estate owned (REO) evictions until February 28, 2021. The moratoriums, which have been extended five times since June 2020, were originally implemented as a response to pandemic-related challenges. A delinquent loan typically follows a predictable delinquency arc. Early stage is considered 30-89 days delinquent and is an early indicator of the borrower's financial health. Late-stage delinquency, defined as 90 or more days delinquent, is a measure of serious financial distress. Typically a lender will work with the borrower to cure the delinquency. If a cure is not worked out, a foreclosure lawsuit will be filed. If a borrower does not pay what is owed, a notice of sale is delivered, and the lender will put the home up for auction. By freezing loans in late-stage delinquency, residential moratoriums delay this process and slow the flow of liquidation recoveries to RMBS and small balance commercial real estate ABS trusts. According to Moody's, late-stage delinquencies for impacted trusts have increased meaningfully. The flip side of this, however, is that by pausing the foreclosure process, borrowers, lenders, and securitized trusts, will be able to maximize the benefits of improving economic conditions.

90+ Day Delinquencies for RMBS and SBCRE ABS Jumped up in August
Shares of Pool Balances That Are 90+ Days Delinquent, in Foreclosure or Real Estate Owned



Post-crisis RMBS product types include prime jumbo, government sponsored enterprise credit risk transfer and re-performing loan transactions. Data include current outstanding RMBS and SBCRE ABS that Moody's Investor Service rate.

Source: Moody's Investor Service

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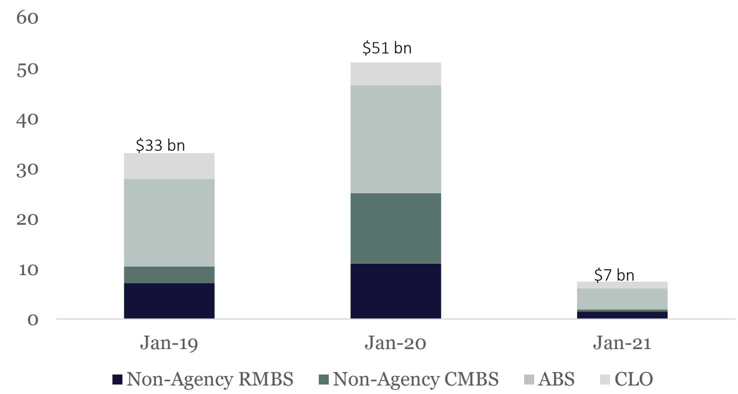
MARKET SUMMARY

In the first two weeks of January, new-issue supply reached $7.4 billion led by ABS, non-agency RMBS and CLOs. Non-agency CMBS contributed $0.5 billion to the total. Although there are still two weeks left in the month, we expect that this month's supply will be lower than what was recorded for the same month in either 2020 or 2019. Exacerbated by the 30% drop in 2020's annual supply, continued constrained supply in the new-issue market redirected investor demand into the secondary market, pushing prices higher and bid-ask spreads tighter. The bid-ask spreads on the most liquid, benchmark products that we follow are currently at the tightest levels in years: 3-year triple-A credit card ABS is at 7 bp, a level last seen in 2007, while the spread on 2-year triple-A auto ABS is at 6 bp, which was last reached in 2017. Triple-A CLO spreads are near their 2018 levels. Pricing for CMBS has also improved, albeit much less pronounced given the impact of continued business closures on commercial properties; triple-A CMBS spreads have reverted to early 2020 levels.

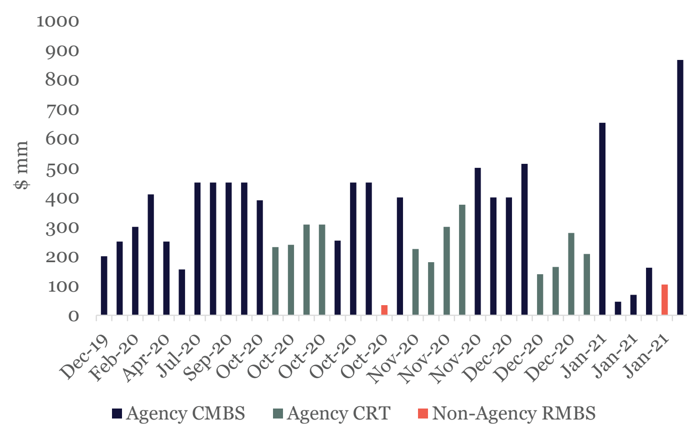
Secured Overnight Financing Rate (SOFR), is the Federal Reserve-backed benchmark that is widely accepted as the replacement rate for the London Interbank Offered Rate (LIBOR), which is set to sunset in mid-2023. SOFR-based issuance has been dominated by Freddie Mac, so far. This month, we begin tracking the volume of SOFR-based securitized products. Since 2019, there has been $8.9 billion in agency CMBS through the Freddie K product and $2.9 billion in RMBS through Freddie's STACR Credit Risk Transfer program. JP Morgan's two non-agency RMBS offerings add $138 million to the total. There has yet to be a SOFR-based ABS product issued in the U.S.

New Issue ($bn) for Non-Agency RMBS, CMBS, ABS and CLO



Source: Market Compilation

SOFR-Based Issuance ($MM)



Source: [FinSight]

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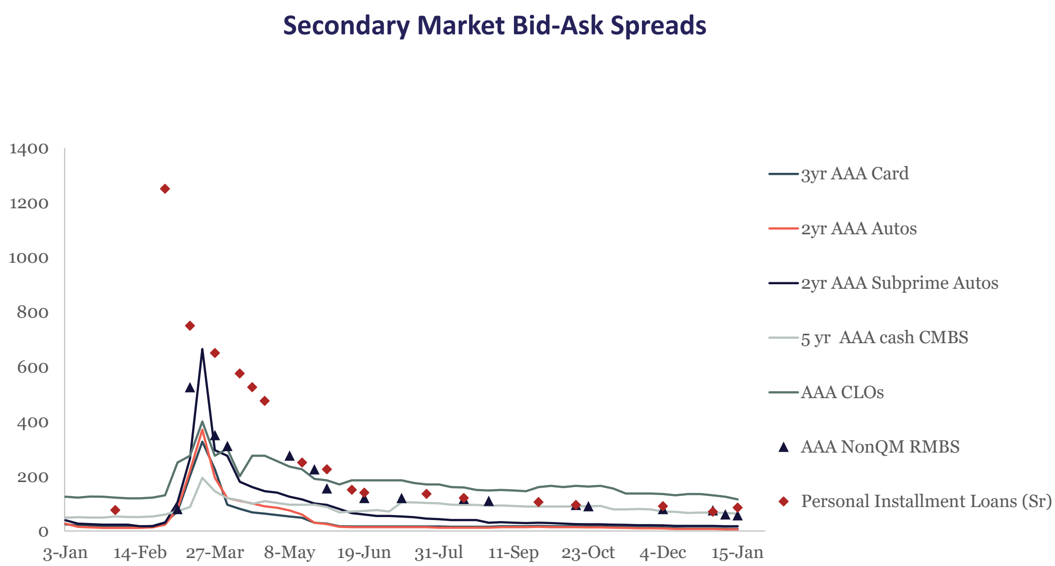
SECONDARY MARKET SPREADS



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	15-Jan	8-Jan
3yr AAA Card	7	8
2yr AAA Prime Autos	6	6
2 yr AAA Subprime Autos	17	17
5 yr AAA Cash CMBS	63	66
AAA CLOs	115	125