

SFA Research Corner

Lending Conditions Ease for Consumers, Not Businesses

February 17, 2021

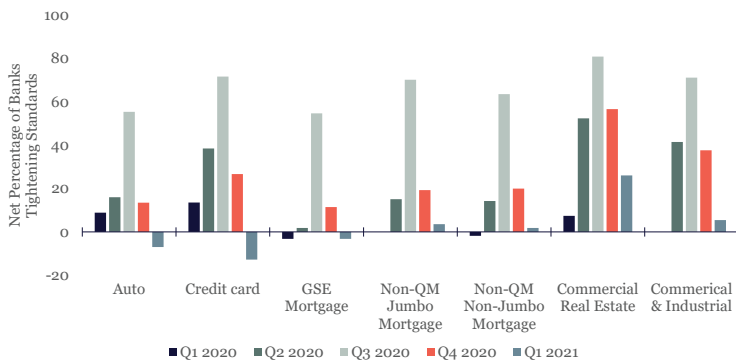


WHAT WE'RE WATCHING

For the first time since the onset of the pandemic, banks, on net, eased lending standards on consumer loans, according to the January 2021 [Federal Reserve Senior Loan Officer Opinion Survey](#), which reflects fourth quarter activity and the change relative to third quarter. Household demand for loans was mixed. Demand was stronger for credit card and mortgage loans but moderately weaker for auto loans. Banks maintained their cautious stance on business lending, however, amidst weaker borrower demand. Commercial loan volume continues to moderate from 2020 historical highs.

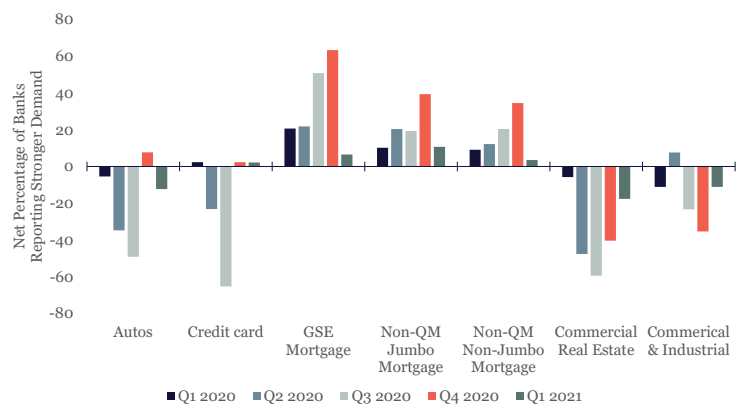
Looking ahead for the rest of 2021, the survey reports that banks expect tighter standards for most business loans and easier standards for all household loans. Banks also expect loan demand to strengthen and loan performance to deteriorate for most loan categories over the year. As securitization continues to fund business and consumer loans, we will continue monitor loan supply and demand as these metrics impact the level of new-issue supply in the structured products market.

4Q 2020: Banks Ease Standards for Consumer Loans While Tightening Standards for Commercial Loans



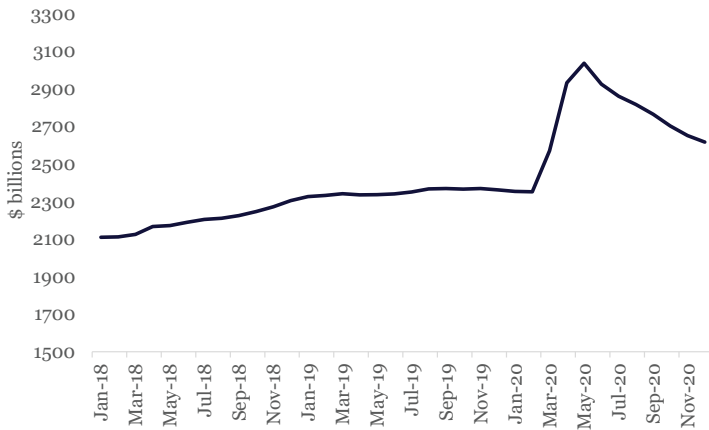
Source: [Federal Reserve Senior Loan Officer Opinion Survey](#)
Higher values indicate tighter lending conditions

4Q 2020: Demand for Consumer Loans Mixed as Demand for Commercial Loans Weaker, on Balance



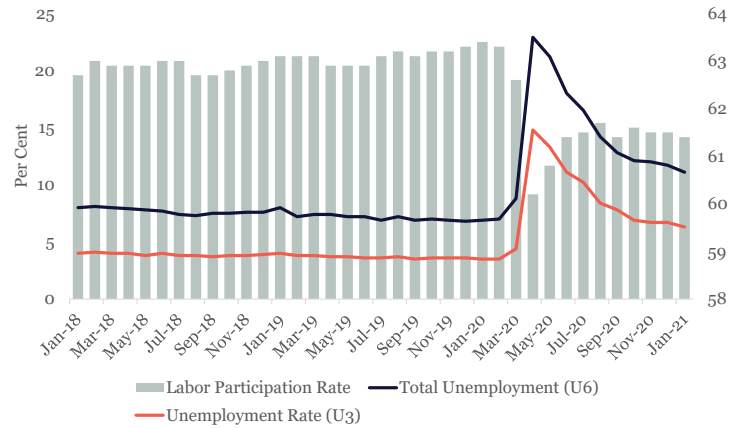
Source: [Federal Reserve Senior Loan Officer Opinion Survey](#)
Higher values indicate stronger demand

Commercial Loan Levels Continue to Moderate From Historical Highs



Commercial and Industrial Loans, All Commercial Banks, Seasonally Adjusted. [H.8 Assets and Liabilities of Commercial Banks in the United States](#)
Source: [Board of Governors of the Federal Reserve System](#)

Labor Market Improvement Slows; Labor Participation Rate Remains at 2020 Level



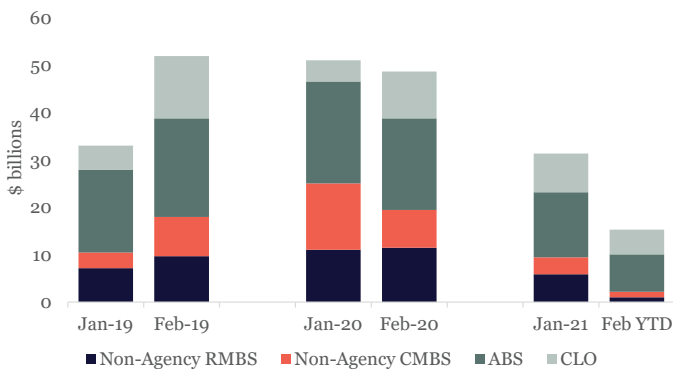
The U3 unemployment rate is the official unemployment rate and is the most commonly reported. The U6 measure, commonly referred to as the total unemployment rate, includes unemployed people, plus people who are marginally attached to the labor force, and people who work part-time for economic reasons.
Source: [Bureau of Labor Statistics](#)

The changes to household lending conditions come even as improvements to the labor market stagnate. "Despite the surprising speed of recovery early on, we are still very far from a strong labor market whose benefits are broadly shared," said Federal Reserve Chair Jerome Powell in his remarks at the Economic Club of New York. "Employment in January of this year was nearly 10 million below its February 2020 level, a greater shortfall than the worst of the Great Recession's aftermath." Additionally, the labor participation rate, which is currently at 61.4% and measures the number of people seeking work or working as a percent of the total population, experienced "the largest 12-month decline in labor force participation since at least 1948." Chair Powell concludes, "[g]iven the number of people who have lost their jobs and the likelihood that some will struggle to find work in the post-pandemic economy, achieving and sustaining maximum employment will require more than supportive monetary policy. It will require a society-wide commitment, with contributions from across government and the private sector." A weak labor market impacts loan performance in the aggregate particularly if households do not receive support through loan accommodations or government support.

MARKET SUMMARY

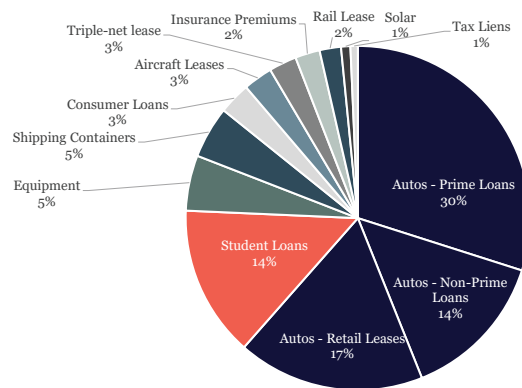
February began strongly for structured products as over \$15 billion of non-agency RMBS and CMBS, ABS, and CLOs came to market. Total year-to-date issuance now stands at \$46 billion, with ABS backed by consumer and commercial loans representing 46% of the total. Of the ABS amount, almost two-thirds are backed by auto-related ABS. Steady demand for structured bonds across products kept prices in the secondary market firm, and bid-ask spreads unchanged at historically tight levels.

**2021 YTD Issuance Versus 2019, 2020
Non-Agency RMBS and CMBS, ABS, and CLO**



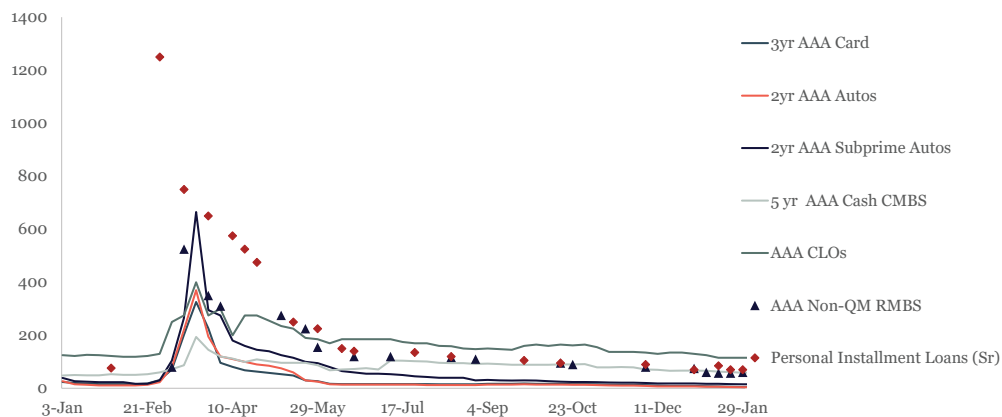
Source: Market Compilation

ABS Only 2021 YTD (\$MM)



Source: Market Compilation

Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads

(bps)	5-Feb	29-Jan
3yr AAA Card	5	5
2yr AAA Prime Autos	4	4
2yr AAA Subprime Autos	15	15
5yr AAA Cash CMBS	60	59
AAA CLOs	115	115