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SFA Research Corner

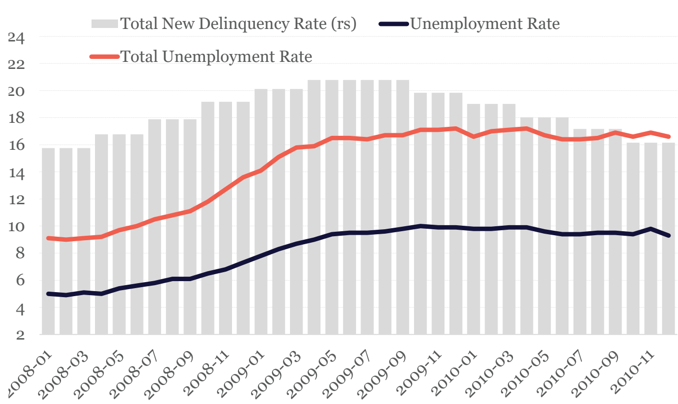
After a Conscious Decoupling, Will There Be a Reconciliation? Unemployment and Credit Performance Post-COVID

March 16, 2021

WHAT WE'RE WATCHING

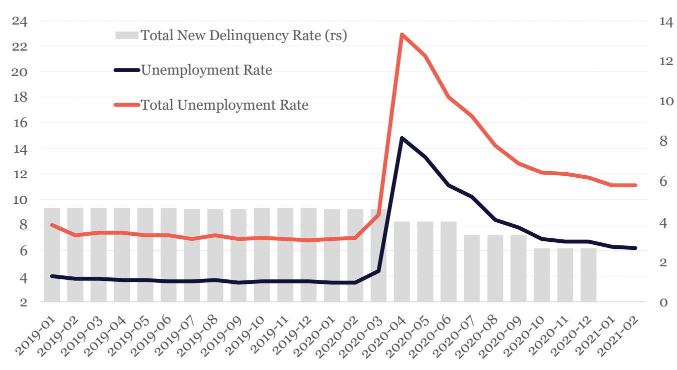
Pre-COVID, consumer loan performance tracked unemployment closely. During the 2008 financial crisis, delinquency rates on consumer loans rose with unemployment. Unemployment doubled from 5% in January 2008 to a then-high of 10% in October 2009 as the total new delinquency rate across consumer loans rose from 8.75% to 11.95%. This relationship decoupled in 2020. Pandemic-related policies pushed the unemployment rate from 3.8%, a historic low, to 14.7%, a level not seen post-WWII. Rather than moving higher, consumer delinquency rates declined from 4.67% in January 2019 to 4.61% in Q1 2020, then continued to improve to 2.66% by year-end, even as the unemployment rate remained elevated. The decoupling has been attributed to the unprecedented level of financial support provided by the government, through stimulus payments and supplemental unemployment insurance, as well as the swift response of the lender, servicer and investor community to provide unprecedented levels of payment relief programs to borrowers facing hardship due to the pandemic.

2008 to 2010: Financial Crisis
Delinquency Rate Moved With Unemployment



Source: [U.S. Bureau of Labor Statistics, Federal Reserve Bank of NY]

2019 to YTD 2021 YTD: COVID-19 Crisis
Despite Record High Unemployment,
Delinquency Rate Improved

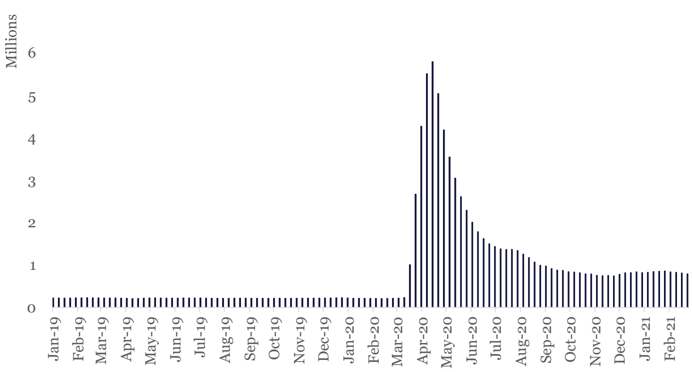


Source: [U.S. Bureau of Labor Statistics], [Federal Reserve Bank of NY]

Indeed, the combination was so successful that the average credit score, almost counterintuitively, rose in 2020. A credit score assesses the likelihood that a consumer may fall significantly behind on a payment obligation over a certain period of time, according to the VantageScore credit score model. That assessment is relative, ranking consumers in a pool by likelihood of default.The rise in 2020 "largely reflect[ed] more conservative use of credit and changes in reported delinquencies due to the presence of accommodations," according to Emre Sahingur, head data scientist at VantageScore Solutions, developer of the VantageScore credit score model. As scores have plateaued, Sahingur warns that a "a closer examination of the data reveals some early signs of reversing trends." He continues that "[s]ome asset classes, such as auto, are showing signs of a risk increase, particularly in lower credit tiers."

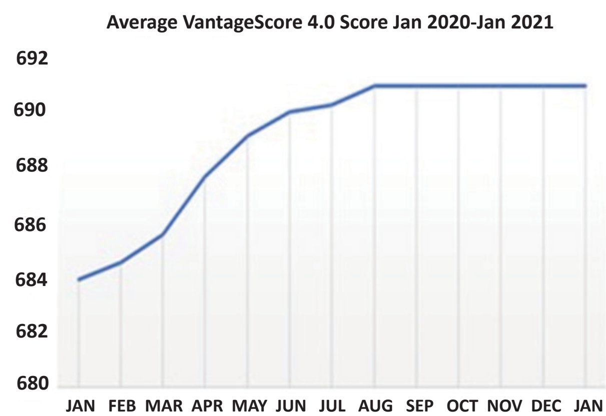
Assessing changes to credit risk as consumers emerge from loan accommodation programs and government programs has become even more paramount. Consumer credit in a post-COVID environment will be discussed further at SFA's March 18 webinar - Emerging From Suspended Animation- Consumer Credit and the Impact on ABS . We encourage you to join us as our panel of experts discuss the potential impact on ABS backed by auto loans and leases, credit cards, student loans and personal installment loans.

Initial Jobless Claims (4-Week Moving Avg) Improves Incrementally; Still 3.5x Above 2019 Levels



Source: U.S. Bureau of Labor Statistics

Improvement in Credit Scores Plateaued in the Fall; and Show Early Signs of Trend Reversal



Source: VantageScore Solutions

MARKET SUMMARY

Another $10.4 billion of securitized bonds came to market in March, bringing the year-to-date total near $14 billion. Notable this week, and another step towards normalcy, was the issuance of SRFC 2021-1, an ABS backed by timeshare loans originated by Wyndham Vacation Resorts and Wyndham Resort Development Corp. New timeshare ABS supply reached $1.6 billion in 2020, 30% below its 2019 level.

Demand for bonds in the secondary market held firm. Prices, and the bid-ask spreads, for the most liquid benchmark products remained mostly unchanged week over week.

March brought the largest non-agency RMBS SOFR-based transaction to date. PIMCO's BRAVO Residential Funding Trust 2021-HE1 is backed by seasoned home equity loans and offered four classes of SOFR-based notes totaling $256 million. Non-agency RMBS represents 2% of the $21.8 billion SOFR-based securitizations issued since December 2019.

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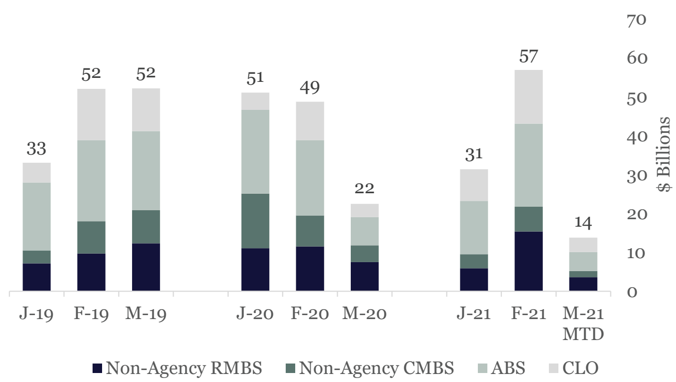
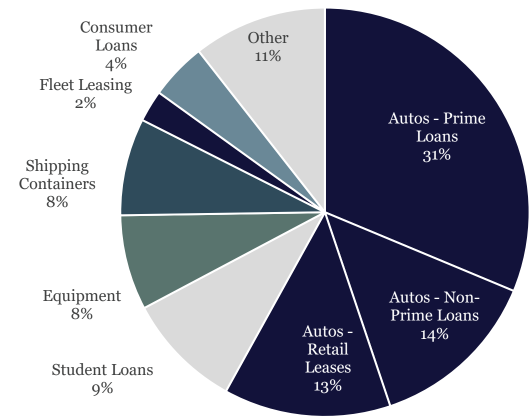
Issuance for Non-Agency RMBS and CMBS, ABS, and CLO 2021 YTD ($102 Billion) Versus 2019, 2020



Source: Market Compilation

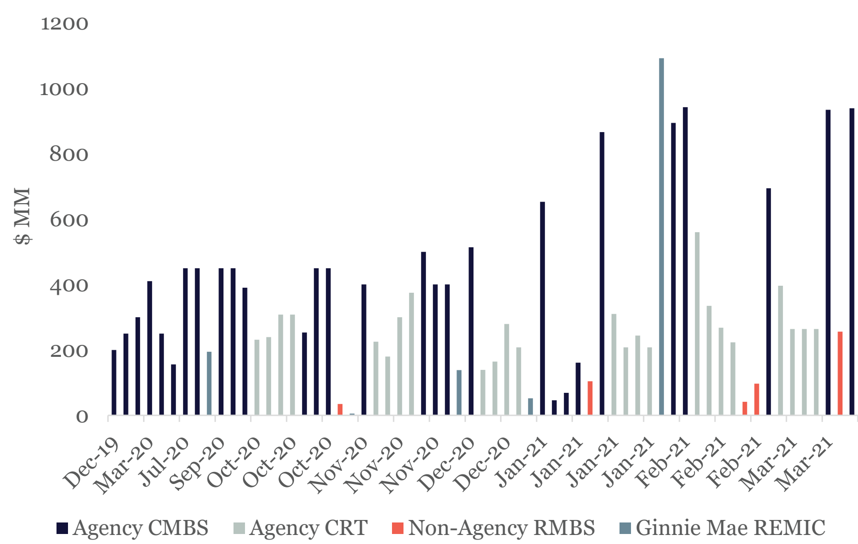
ABS Only YTD: $40 billion



Other includes ABS backed by aircraft lease, triple-net lease, insurance premium, rail lease, solar, tax liens, UK credit cards, and litigation funding, whole businesses, and timeshare.

Source: Market Compilation

SOFR-based Structured Finance New Issue Volume 2019 to 2021 YTD: $21.8 Billion



Source: Market Compilation

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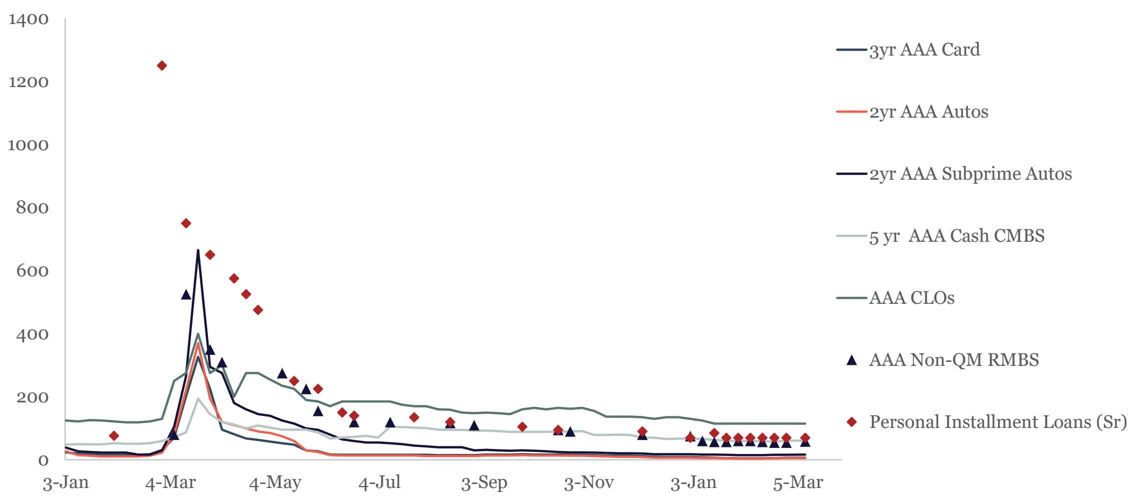
Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	9-Mar	26-Feb
3yr AAA Card	7	7
2yr AAA Prime Autos	6	6
2yr AAA Subprime Autos	17	16
5yr AAA Cash CMBS	61	61
AAA CLOs	115	115