

SFA Research Corner

The Electric Vehicle Market Charges Up

March 9, 2021

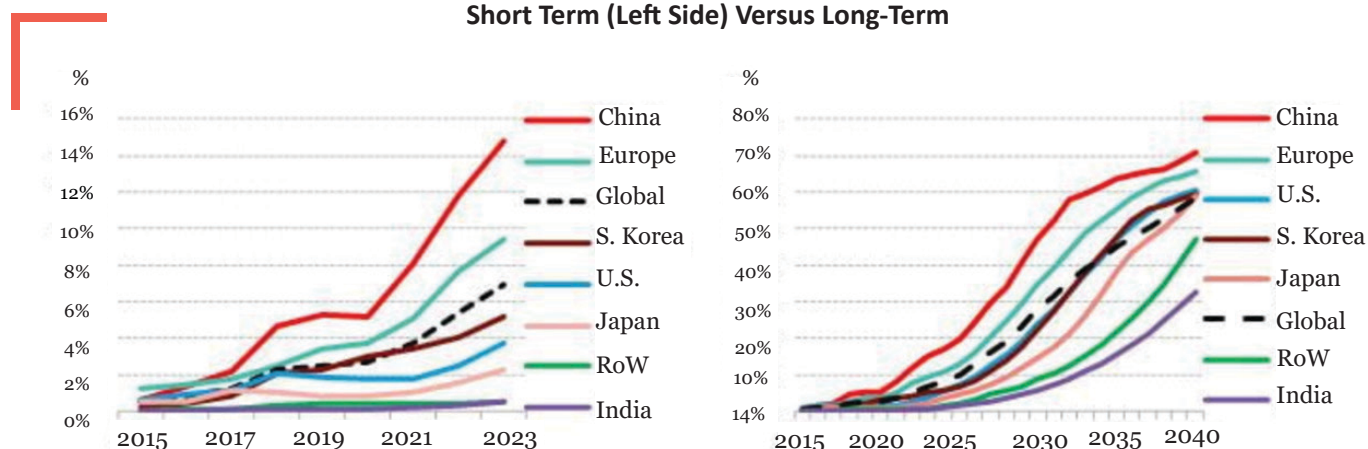


WHAT WE'RE WATCHING

Car manufacturers have been adding fully electric and hybrid electric vehicles (EV) to their lineup to comply with global environmental regulations and to meet rising consumer demand. Although EV sales currently account for only 5-6% of all vehicles sold globally, and approximately 2% of all vehicles sold in the U.S., BloombergNEF expects EVs sales to surpass gas vehicle sales in the U.S. by 2035 and globally, by 2040. The EV discussion reached a new level in January when GM, one of the world's largest traditional automaker committed to an all-electric lineup by 2035. GM's announcement was followed by pledges from Jaguar and Volvo to become fully electric by 2025 and 2030 respectively. Recent proposals from the Biden administration and lawmakers could also, if enacted, boost U.S. sales. For securitization, this could lead to an increase in stand-alone green auto ABS offerings or designated green buckets in traditional auto ABS deals, both of which would be welcomed by ESG investors.

EV sales could see an uptick as a result of President Biden's plan to phase out the federal government's fleet of gas-run vehicles and replace them with electric vehicles. The move, which was announced as part of his [Made In America Executive Order](#), would impact at least 645,000 cars and trucks. President Biden's plan coincides with proposals to re-engage and reform the federal tax credit on electric vehicles, which was put in place in 2010 and allowed to phase out in 2020. The incentive program provided buyers of electric vehicles a federal tax credit of up to \$7,500 and was subject to a 200,000 vehicles cap per manufacturer. On February 5, Congressman Mike Thompson (D-CA), Chairman of the House Ways and Means Subcommittee on Select Revenue Measures, and the Democratic membership of the Committee, sought to bring back the incentive program through the [Growing Renewable Energy and Efficiency Now \(GREEN\) Act](#). The GREEN Act proposes a federal tax credit of up to \$7,000 and increases the cap on deliveries to 600,000 per manufacturer. Senator Jeff Merkley (D-OR) and other Democrats also introduced a bicameral bill on February 23. [The Electric Credit Access Ready at Sale \(Electric CARS\) Act](#) of 2021 seeks to reset the tax credit to \$7,500 for the next 10 years and eliminate the manufacturer cap on deliveries. Combined with President Biden's replacement plan, these reforms have the potential to meaningfully boost EV sales in the U.S..

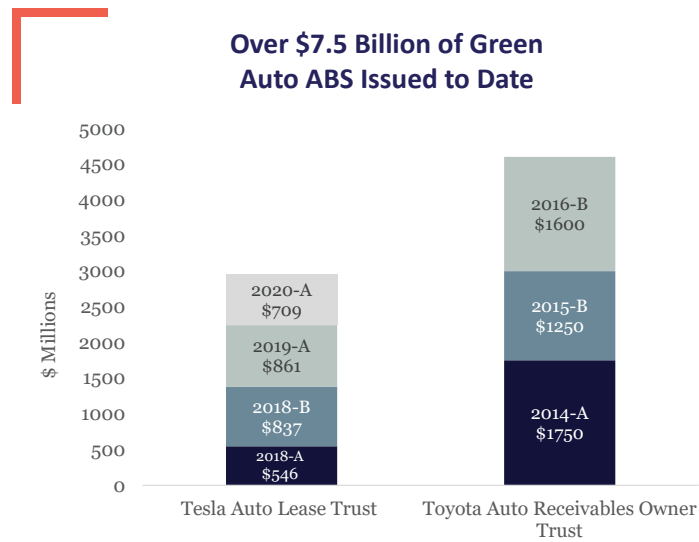
**Global EV Share of New Passenger Vehicle Sales by Region:
Short Term (Left Side) Versus Long-Term**



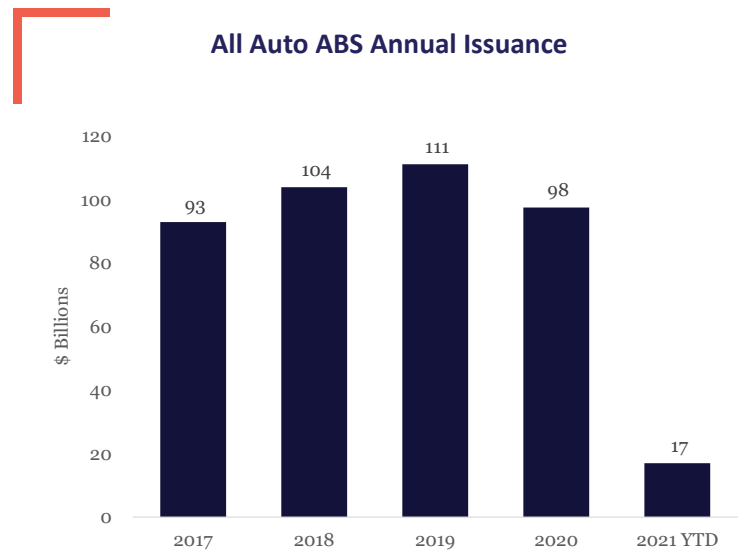
To date issuance of ABS backed by green auto financing instruments has been limited. Toyota issued the structured finance industry’s first green auto ABS in 2014. The \$1.2 billion deal (TAOT 2014-A), which was underwritten by Citigroup, BofA Securities and Morgan Stanley, was issued as part of the car manufacturer’s Green Bond Program and supported the sale of environmentally friendly vehicles. For TAOT 2014-A and subsequent deals (TAOT 2015-B and TAOT 2016-B), net proceeds were used solely for the purpose of financing retail loans and leases on qualifying Toyota and Lexus gas-electric hybrid or alternative fuel models. To qualify, a model must meet criteria that forwards Toyota’s specific commitment to lower carbon emissions. Specifically:

- i. Gas-electric hybrid or alternative fuel powertrains,
- ii. Minimum highway and city miles per gallon (or miles-per-gallon equivalent, which represents the number of miles a vehicle can go using a quantity of fuel with the same energy content as a gallon of gasoline) of at least 35, and
- iii. For transactions 2014-A and 2015-B: designations of “ZEV” (zero-emission vehicles), “PZEV” (partial zero-emission vehicles) or “SULEV II” (super-ultra-low-emission vehicles), determined in accordance with the California Low-Emission Vehicle Regulations and Test Procedures of the California Environmental Protection Agency’s Air Resources Board. For 2016-B: a smog rating of “8” or better (“10” being the cleanest), as determined by the United States Environmental Protection Agency for the purchase of a vehicle in California.

Tesla, a leader in the EV space, entered the securitization market in 2018. The Tesla Auto Lease Trust 2018-A, which raised \$546 million in the Reg 144a market, financed consumer leases for Tesla’s suite of electric vehicles. Tesla’s most recent bond offering, Tesla Auto Lease Trust 2020-A, was issued in August 2020.



Source: [Finsight](#), [Toyota Financial](#)



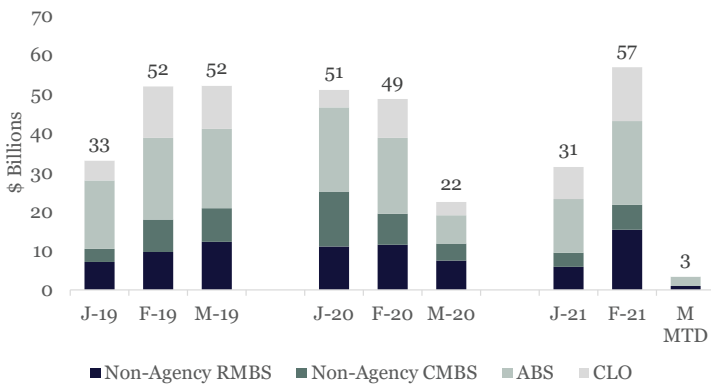
Source: Market Compilation

MARKET SUMMARY

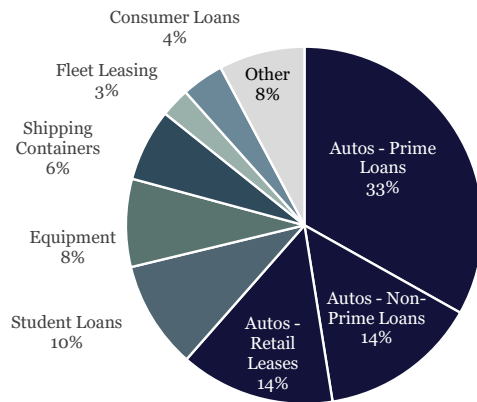
Across non-agency RMBS and CMBS, ABS and CLO products, the final new-issue tally for February reached \$57 billion, exceeding the monthly volume recorded in February 2019 or 2020. With the flurry of new-issue supply, demand for bonds in the secondary market slowed and prices dipped below historically high levels, causing bid-ask spreads for the most liquid, benchmark products to widen slightly.

Five more SOFR-based securitizations entered the market, bringing the total to date to \$20.6 billion.

Issuance for Non-Agency RMBS and CMBS, ABS, and CLO 2021 YTD (\$92 Billion) Versus 2019, 2020



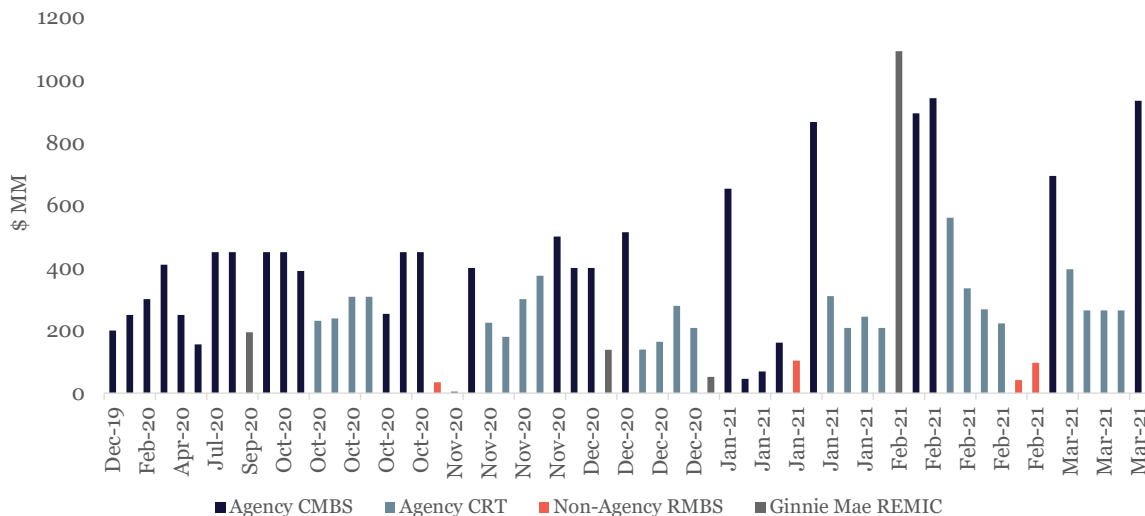
ABS Only YTD: \$37.8 Billion



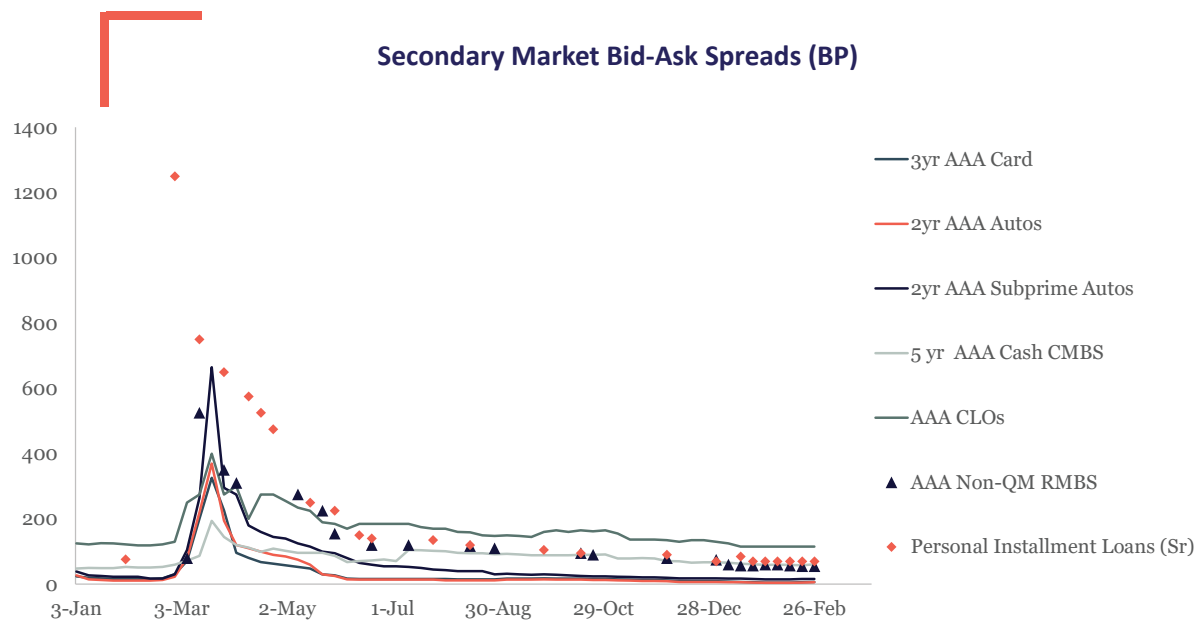
Source: Market Compilation

Other includes ABS backed by aircraft lease, triple-net lease, insurance premium, rail lease, solar, tax liens, UK credit cards, and litigation funding.
Source: Market Compilation

SOFR-Based Structured Finance New-Issue Volume 2019 to 2021 YTD: \$20.6 Billion



Source: Market Compilation



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	26-Feb	19-Feb
3yr AAA Card	7	6
2yr AAA Prime Autos	6	5
2yr AAA Subprime Autos	16	16
5yr AAA Cash CMBS	61	58
AAA CLOs	115	115