

## SFA Research Corner

## Revolving Debt and Credit Card ABS

April 14, 2021



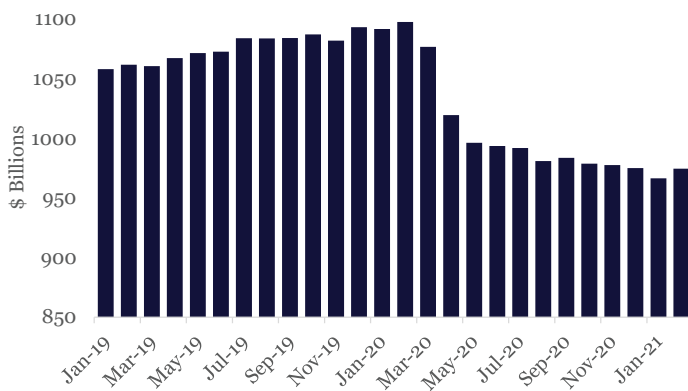
## WHAT WE'RE WATCHING

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Revolving consumer debt, which primarily represents credit card balances, rose \$8 billion in February to \$974.4 billion, the largest month-over-month increase of this measure since 2019, according to the Federal Reserve's G.19 Consumer Credit Report. We look at how increased spending has been supportive of credit card ABS.

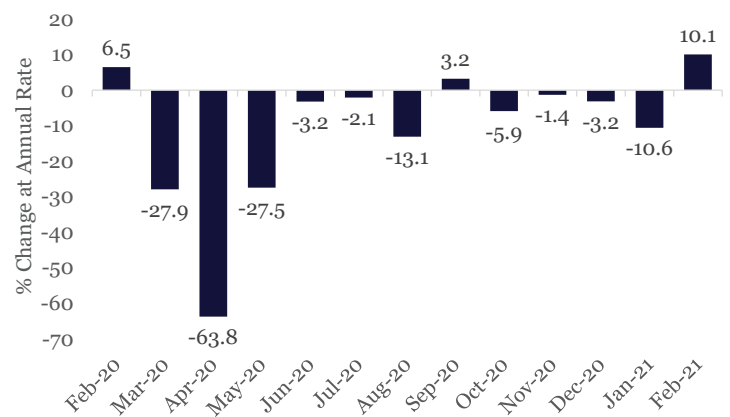
February's 10% increase in revolving debt represents the first meaningful increase of this magnitude since the onset of the pandemic 12 months ago. Revolving debt dropped in 2020 as consumers pared back on spending and used stimulus money to pay down debt. Spending has picked up as the economy continues to reopen and consumer sentiment improves. For the [week ending March 14, 2021](#), spending was up 6% compared with January 2020, a meaningful improvement over one year ago, when overall spending was down by 30% versus the same period. As we continue to make progress in containing the impact of COVID-19, we expect the rate of spending to accelerate.

**Revolving Consumer Debt Rose by \$8 Billion in February to \$974.4 Billion; Largest MoM Increase Since July 2019**



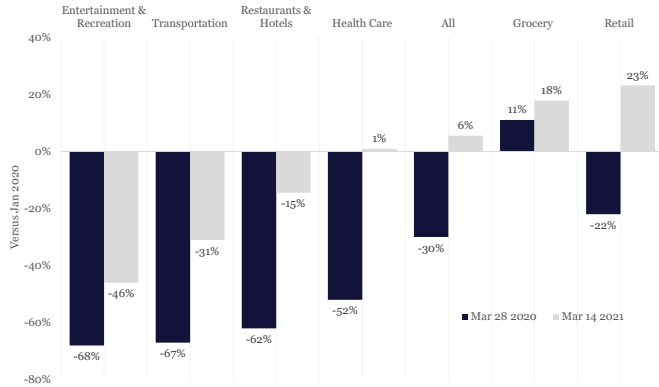
Source: [Federal Reserve G.19 Consumer Credit](#)

**Revolving Consumer Debt Increased by 10.1%, Annualized**



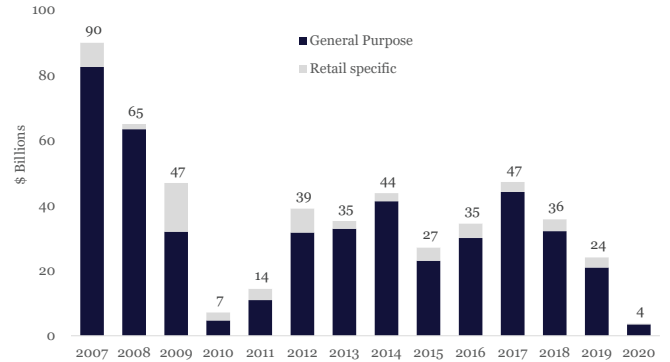
Source: [Federal Reserve G.19 Consumer Credit](#)

### Compared with January 2020, Overall Spending is Up 6%



Source: [tracktherecovery.org](https://tracktherecovery.org)

### Credit Card ABS Issuance 2007 to 2020

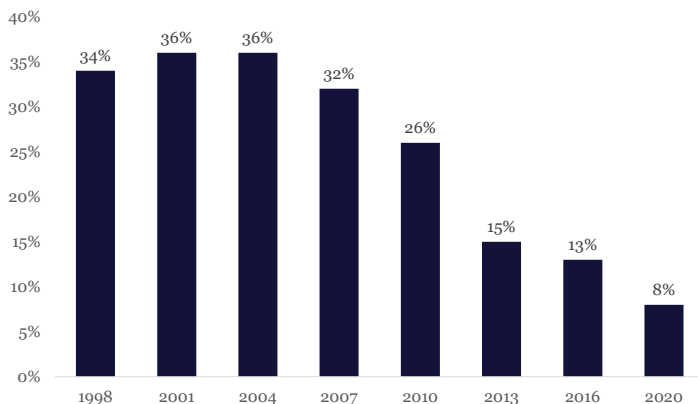


Source: Market Compilation

Before 2008, lenders regularly tapped the securitization market to fund credit card loans. Issuers, primarily large money center banks, refinanced maturing ABS through the securitization market, contributing to a consistent and relatively predictable level of annual new-issue supply. Credit card ABS was one of the largest segments of the new-issue ABS market, peaking at \$90 billion in 2007. This changed dramatically post-crisis as ["a combination of a GAAP accounting change, cheap deposit funding, and a contracted credit card lender market"](#)<sup>1</sup> meant that banks were less motivated to use securitization as a primary tool to fund credit card loans. Between 2010 and 2019, issuance averaged \$31 billion per year. Securitization, which funded nearly one-third of all credit card debt pre-crisis, now funds approximately only 8% of total credit card debt.

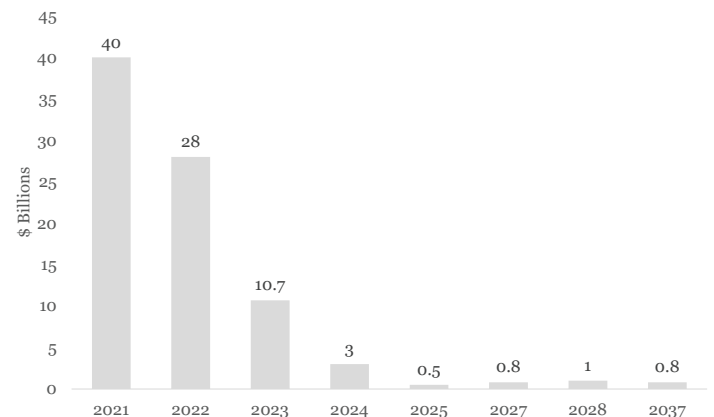
<sup>1</sup>S&P Global Ratings

### Securitization as a Tool to Fund Credit Card Loans Has Dropped Off Since the Crisis



Source: [S&P Global Ratings](#), [Market Compilation](#), [Federal Reserve](#)

### Expected Credit Card ABS Maturity Schedule



Source: Deutsche Bank

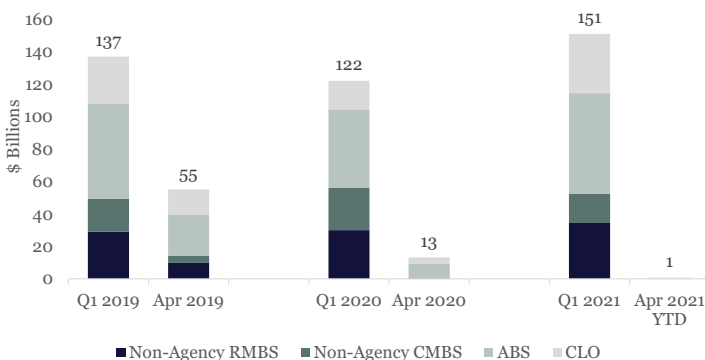
In 2020, credit card ABS issuance reached a new low of \$4 billion as \$40 billion of credit card ABS matured. Pandemic-related lockdowns and heightened economic uncertainty exacerbated the dearth in supply as consumers pared back on spending and used stimulus payments to pay down debt. Coming from such a low point, it is not such a stretch to expect issuance to rise in 2021, particularly as the economy-and spending-moves toward normalcy. New-issue supply may also get a large boost if any of the major credit card ABS issuers decide to refinance a portion of the \$40 billion of credit card ABS that is expected to mature this year.

The post-2008 market has also seen the rise of specialty finance issuers. Although a small share of new credit card ABS volume, specialty finance lenders offer credit to non-prime or subprime borrowers and, in some cases, to borrowers with little or no credit histories. The Consumer Financial Protection Bureau [estimates](#) that nearly 20% of consumers do not have any credit history or are not scorable using traditional credit scoring models. This number rises to 45% for low-income neighborhoods and falls to 9% for high-income neighborhoods.

## MARKET SUMMARY

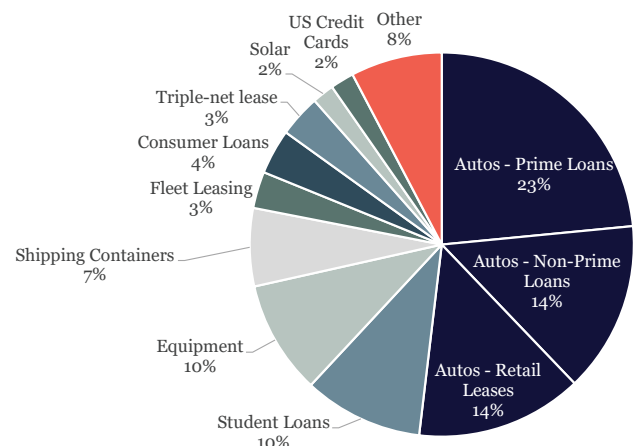
So far in 2021, there have been three credit card ABS deals totaling \$1.3 billion. Two of the three transactions were debut offerings. Brex Commercial Charge Card Master Trust, Series 2021-1 is a \$185 million corporate charge card ABS transaction backed by loans to businesses concentrated in the software (18.41%), healthcare (10.89%) and financial services (7.75%) industries, according to the [KBRA new-issue report](#). The issuer, Brex Inc., is a financial services company that offers loans to small-and medium-sized companies. The other transaction is the \$950 million Mercury Financial Credit Card Master Trust, Series 2021-1. The issuer is Mercury Financial LLC, the largest non-bank credit card company in the U.S., with over \$1.2 billion of receivables, as stated on the company [website](#). Mercury Financial lends to “near prime consumers with FICO scores between 600-700,” as stated in the [KBRA new-issue report](#). According to a company [press release](#), the deal was oversubscribed and upsized from \$750 million.

**Issuance for Non-Agency RMBS and CMBS, ABS, and CLO  
2021 YTD (\$152 Billion) Versus 2019, 2020**



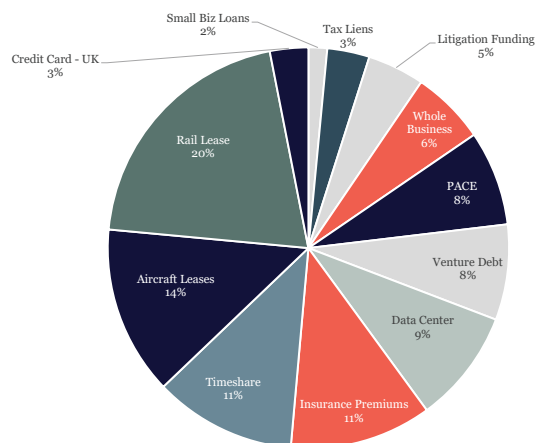
Source: Market Compilation

**ABS Only - 2021 YTD: \$56.8 Billion**



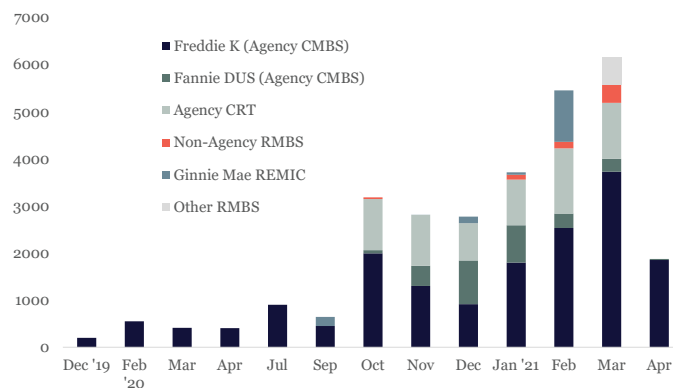
Source: Market Compilation

### Other ABS Only - 2021 YTD: \$4.4 Billion



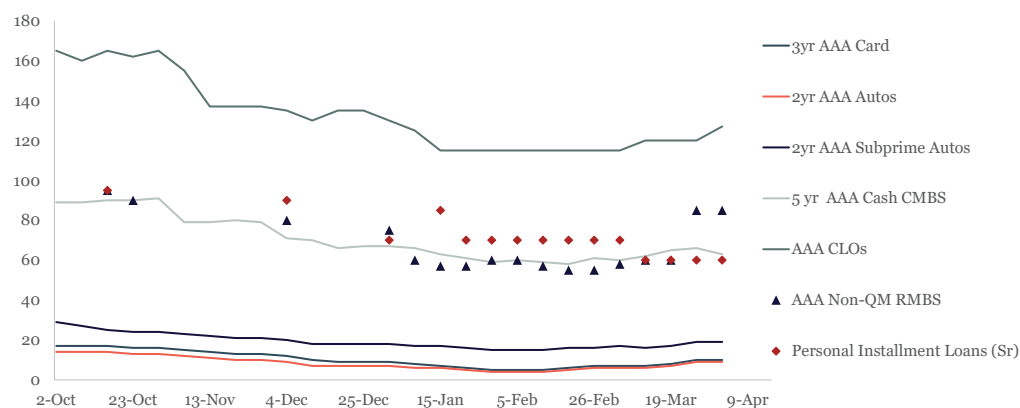
Source: Market Compilation

### SOFR Securitizations 2019 to 2021 YTD: \$29 Billion



Source: Market Compilation

### Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

### Secondary Market Bid-Ask Spreads

(bps)	2-Apr	26-Mar
3yr AAA Card	10	10
2yr AAA Prime Autos	9	9
2yr AAA Subprime Autos	19	19
5yr AAA Cash CMBS	63	66
AAA CLOs	127	120