STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Trends in Auto ABS

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WHAT WE'RE WATCHING

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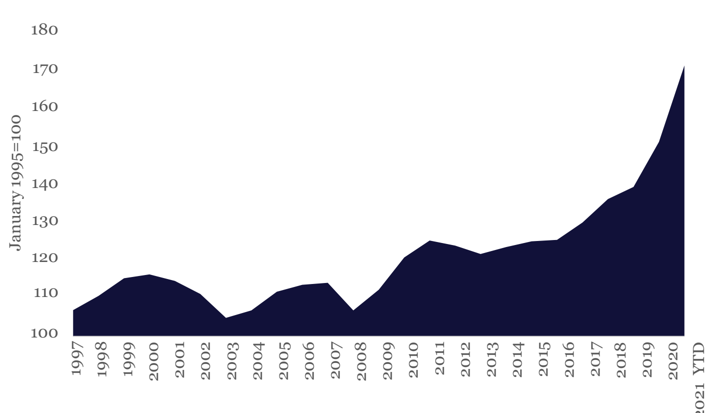
Used vehicle prices rose 5.87% to 179.2 in March, as reported by the Manheim Used Vehicle Index. March's value is 26% above its level one year ago and is a record high for the Index, which began in 1995 and looks at five million used vehicle transactions annually. Robust used car prices limit the severity of losses given borrower default. We review the impact of used car prices and other dynamics on auto ABS.

The strength of used car prices plays an important role in determining the severity of losses experienced by an auto loan ABS. When a borrower defaults on an auto loan, the vehicle is repossessed and sold into the used car market in relatively short order. KBRA estimates that pre-pandemic, for KBRA-rated auto ABS, the average time from loan charge-off to loan liquidation was approximately 1.5 months.

Since cars depreciate quickly, the recovery rate, or the percentage of principal amount recovered in the event of default, will depend mostly on the state of the used car market at the time of the sale. With today's robust used car prices, the recovery rates on auto ABS portfolios are currently tracking above historical averages. In February 2021, as reported by S&P Global, the recovery rate for auto ABS backed by prime loans reached 70.08%, which is more than 10 points above the historical average of 59%. The recovery rate for auto ABS backed by subprime loans was 46.12%, modestly above its historic average of 44%. It is worth noting that today's recovery rates are in between the historic low recorded in April 2020, which for prime was 36.83% and for subprime 25.16%, and the historic highs recorded in August 2020, which for prime auto ABS was 80.13% and 65.02% for subprime.

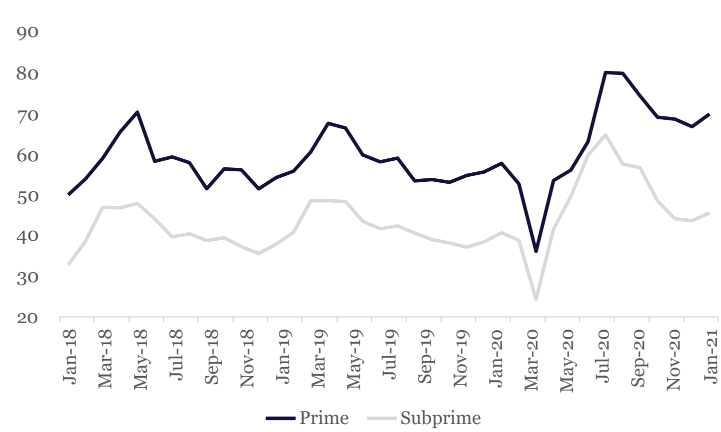
Manheim Used Vehicle Index Hits Record High in March

(March = 179.2; 2021 Annual Average YTD = 170.5)



Source: Manheim Consulting

Auto ABS Recovery Rates Rise on Strength of Used Car Prices



Source: S&P Global

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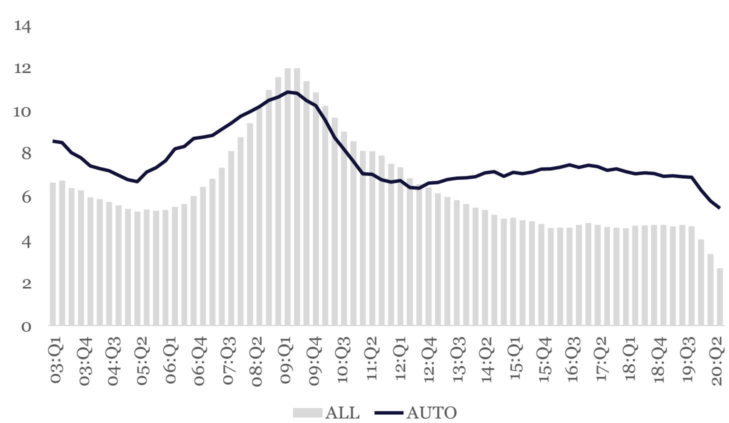
The extreme fluctuations in the recovery rates over the past year are a good example of the impact of pandemic-related accommodations and the reversion to the "natural norm" that occurs when accommodations are lifted. The steep decline in recovery rate at the onset of the pandemic was caused by the temporary closing of vehicle auctions and widespread implementation of repossession moratoriums. These activities extended the average time from loan charge-off to loan liquidation from the pre-pandemic level of 1.5 months to approximately 3.5 months, according to a KBRA report. The late-summer pop in recovery rates occurred as the repossession moratoriums were lifted and the backlog of liquidations were processed.

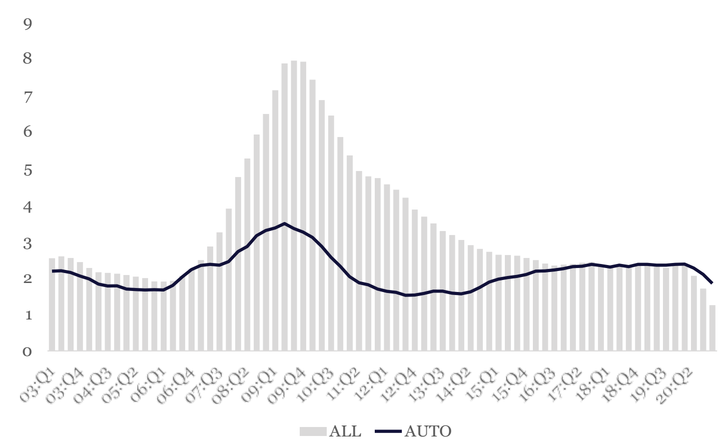
The impact that pandemic-related government stabilization measures and lender-supported loan deferral programs have had on loan performance has been significant. After improving for three consecutive quarters in 2020, the share of newly delinquent auto loans reached a new low of 5.45% in the fourth quarter of 2020, according to the New York Fed Consumer Credit Panel. The share of seriously delinquent auto loans fell to a near-historic low of 1.84% in the same quarter.

% of Newly Delinquent Loans (30+ Days) Fell to New Lows in 4Q 2020
(Auto = 5.45%, All Consumer = 2.66%)



Source: New York Fed Consumer Credit Panel/Equifax

% of Seriously Delinquent Loans (90+ Days) Neared Historic Lows in 4Q 2020
(Auto = 1.84%, All Consumer = 1.25%)



Source: New York Fed Consumer Credit Panel/Equifax

The strength of the collateral performance translated into an equally impressive performance in auto ABS as evidenced by the following statistics from S&P Global's U.S. Auto Loan ABS Tracker.

In 2020, Auto ABS backed by **prime loans** recorded:

- Average monthly loss rate decreased to 0.46%, the lowest level since 2014; and
- Average 60-plus-day delinquencies declined to a seven-year low of 0.37%.

In 2020, Auto ABS backed by **subprime loans** recorded:

- Average monthly loss rate declined to 5.80%, the lowest level since 2013; and
- Average 60-plus-day delinquencies decreased to 4.08%, a six-year low.

As performance normalizes over 2021, we expect to see these metrics moderating from these exceptional levels. To the extent that the dynamics in the used car market remain in place in 2021, we expect strong used car prices to mitigate a rise in auto ABS loss rates.

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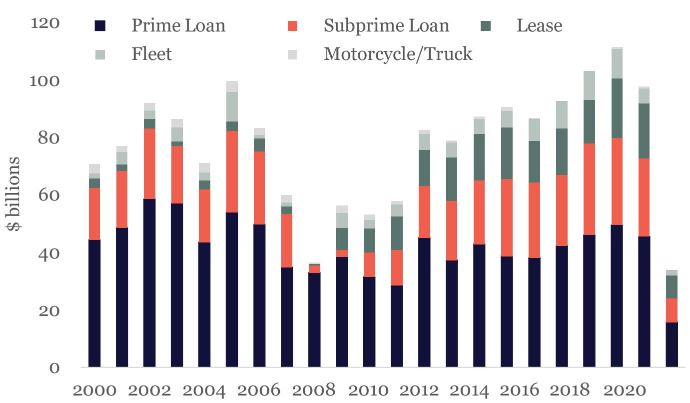
MARKET SUMMARY

Securitization has been a reliable finance tool to fund auto loans and leases. Between 2000 and 2007, the ABS market funded an annual average of $80 billion of auto-related loans and leases. Issuance of auto ABS contracted to an annual average of $51 billion between 2008 and 2011, then regained its footing between 2012 and 2019, averaging $88 billion annually during this time. In 2020, auto ABS issuance fell to $98 billion. Although this was an 11% drop from 2019's robust level, which at $111 billion represented a post-2008 high, the decline was markedly less than the 24% year-over-year decline experienced by the broader ABS market.

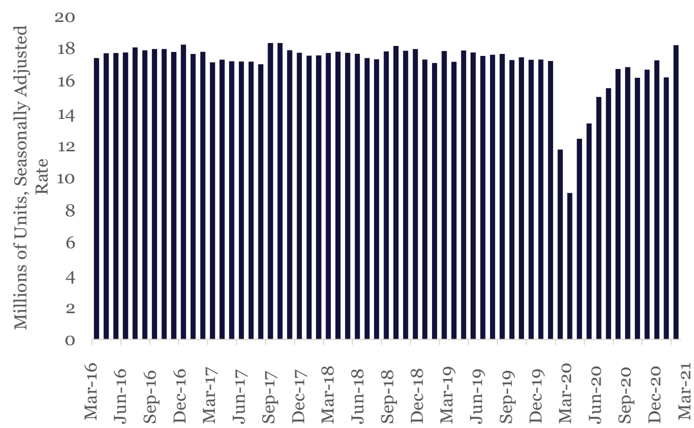
Issuance of auto ABS is currently supported by a stronger than expected rebound in retail sales as people take advantage of historically low interest rates, choose individual vehicles over mass transit, and move to areas that necessitate travelling by car. With $34 billion issued in the first quarter of 2021, auto ABS issuance is on track to exceed 2019's record level of $111 billion. Auto ABS represents 54% of the new ABS offerings in the first quarter, a level consistent with what was seen in 2020 and 2019.

Historical Auto ABS Issuance



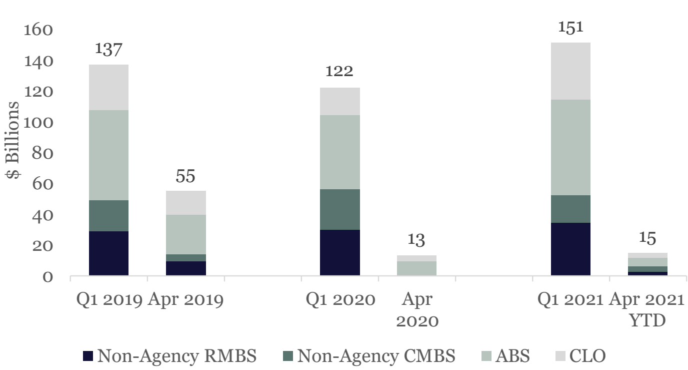
Source: Market Compilation

Stronger Than Expected Retail Vehicle Sales in 2020 Has Continued in 2021



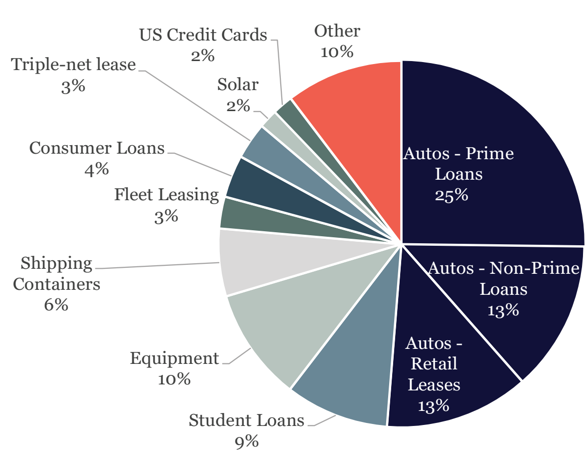
Source: U.S. Bureau of Economic Analysis

Issuance for Non-Agency RMBS and CMBS, ABS, and CLO 2021 YTD ($166 Billion) Versus 2019, 2020



Source: Market Compilation

ABS Only - 2021 YTD: $62.4 Billion



Source: Market Compilation

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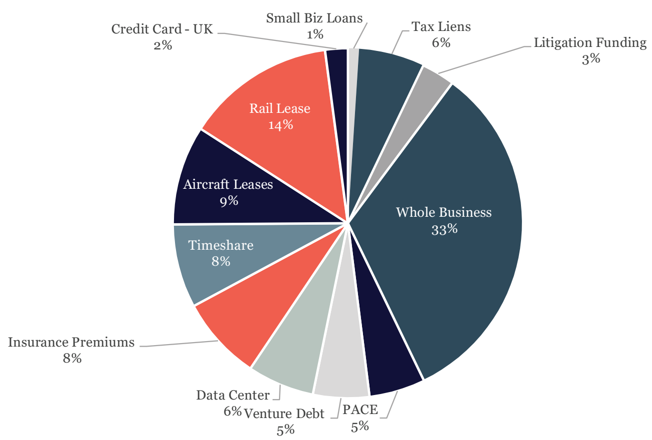
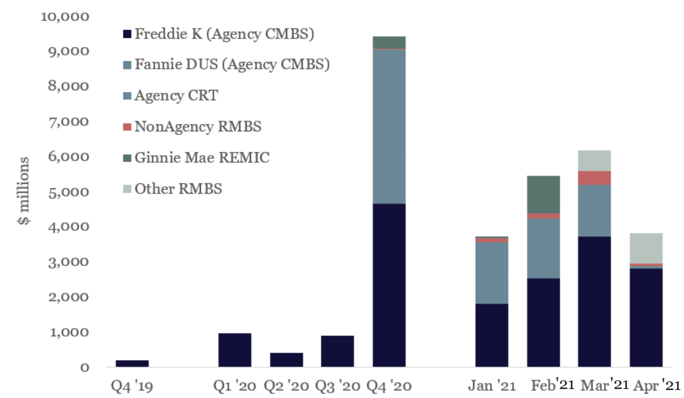
Other ABS Only - 2021 YTD: $6.5 billion



Source: Market Compilation

SOFR Securitizations 2019 to 2021 YTD: $31 Billion

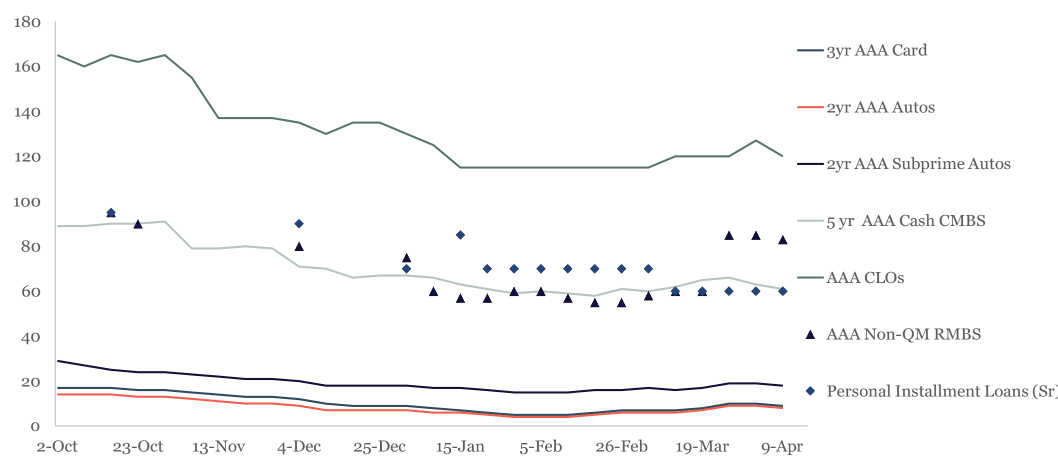


Other MBS includes mortgage insurance-linked securities.

Data begins Q3 2019.

Source: Market Compilation

Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	9-Apr	2-Mar
3yr AAA Card	9	10
2yr AAA Prime Autos	8	9
2yr AAA Subprime Autos	18	19
5yr AAA Cash CMBS	61	63
AAA CLOs	120	127