

SFA Research Corner

Lending Conditions, One Step Forward, and Jobs Data, Two Steps Back

May 13, 2021



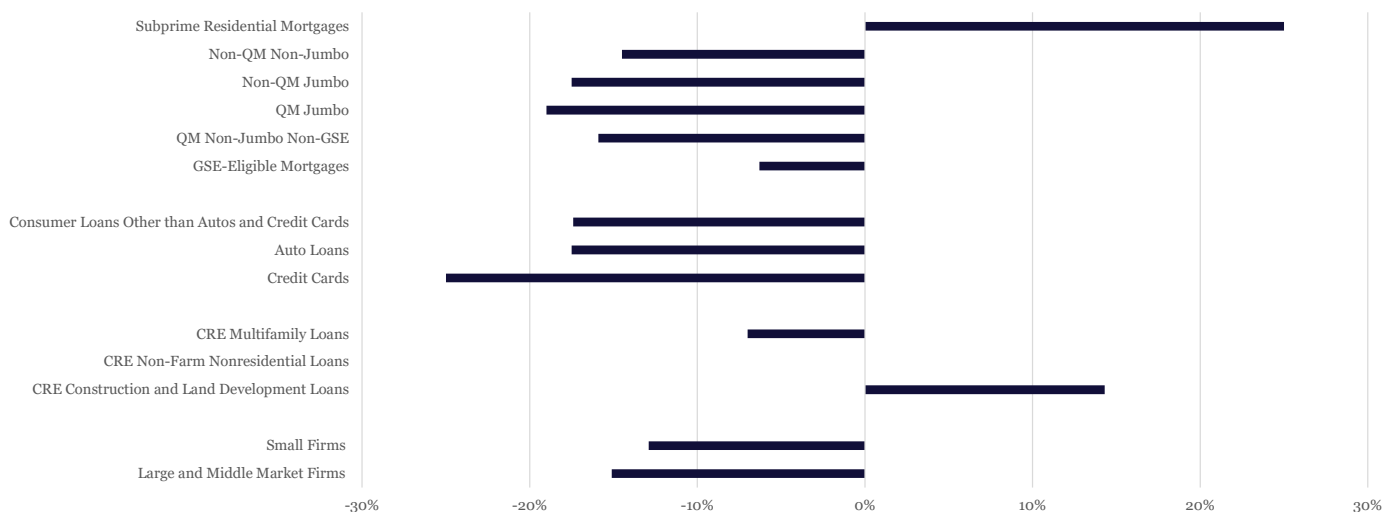
WHAT WE'RE WATCHING

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Banks' willingness to lend and demand for loans drive an important portion of securitization volume. The Federal Reserve's April 2021 Senior Loan Officer Opinion Survey on Bank Lending Practices indicates that both of these measurements improved in the first quarter of 2021. Lending conditions, however, remain tighter than pre-pandemic levels. The recent lackluster jobs data may, if sustained, pose a challenge to the return of the more favorable lending environment that characterized the pre-pandemic period.

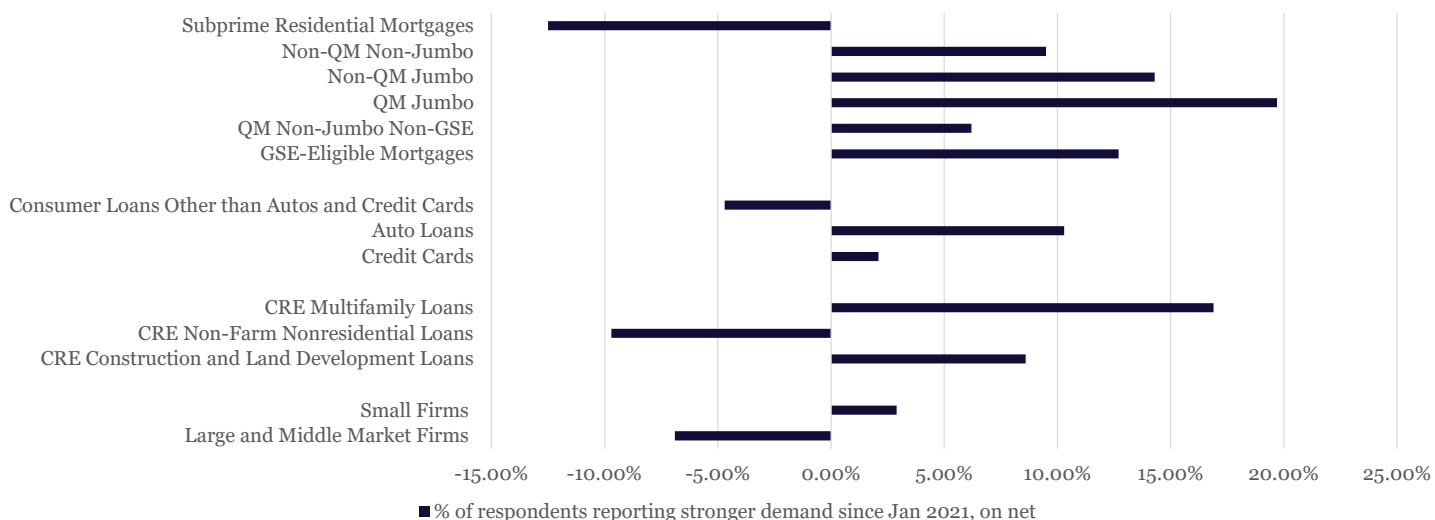
With the passage of another stimulus package, incremental improvements to employment, and the certainty of a vaccination rollout, banks eased lending standards for consumer and business loans in the first quarter, as reported by the April 2021 Senior Loan Officer Opinion Survey. The exception to this has been in the subprime residential mortgage space, where 25% of banks surveyed, on net, reported tightening standards. Less restrictive standards have come as demand for loans, on net, has increased across most categories. Again, with the exception of the subprime residential mortgage sector, the only sector in the first quarter that reported tighter lending policies amidst weaker consumer demand.

Over the Past Three Months, Banks Have Eased Lending Policies for Most Loan Categories, On Net Exception: Banks Continued to Tighten for Subprime Residential Mortgages and CRE Construction and Land Development Loans



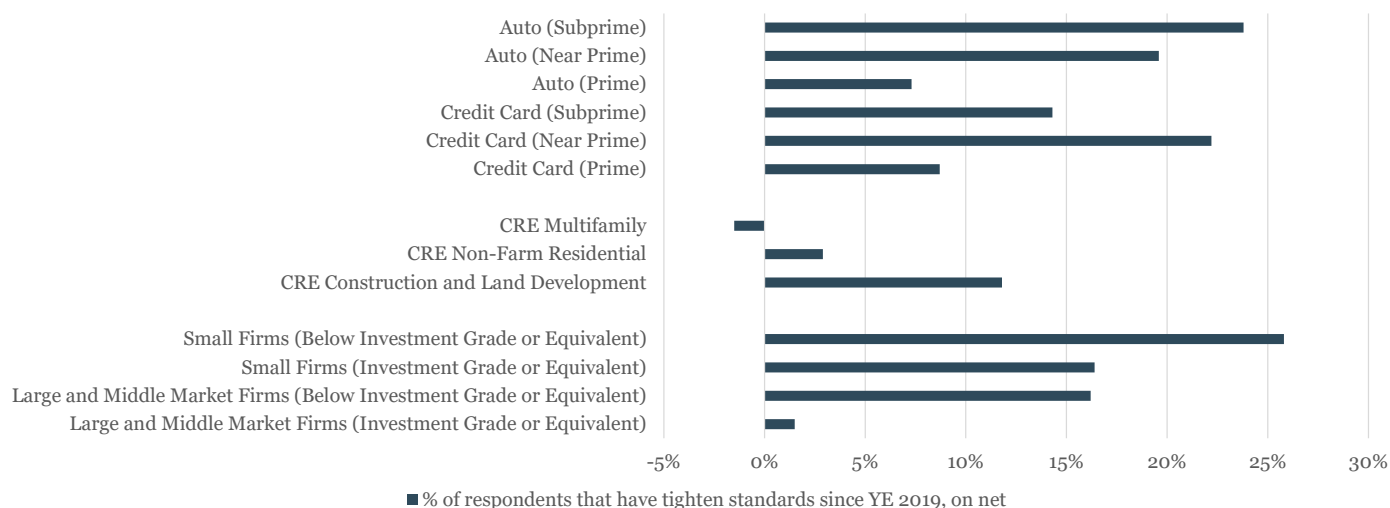
Source: [Federal Reserve](#)

**Over the Past Three Months, Demand for Loans Was Stronger, On Net
Exception: Subprime Residential Mortgages, Consumer Loans,
CRE Non-Farm and Loans to Large and Middle Market Firms**



When compared with the pre-pandemic period of year-end 2019, banks, on net, reported that today’s lending practices remain tighter than pre-pandemic levels, despite the broad-based easing of standards reported in first quarter 2021.

**Compared to YE 2019, Banks Have Tightened Lending Policies for
Most Categories of Borrowers, On Balance
Exception: Banks Eased Standards for CRE Multifamily**

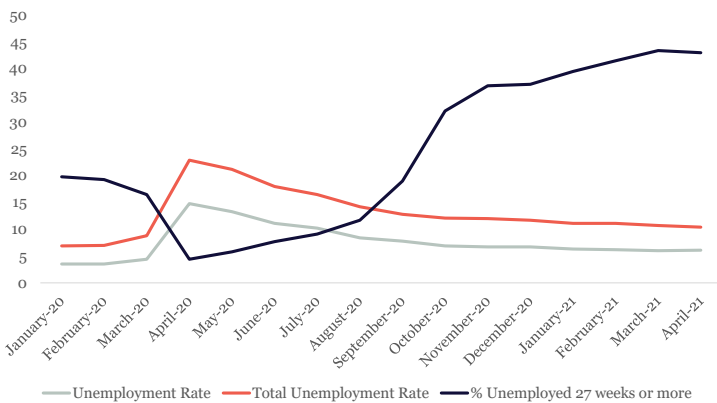


Source: [Federal Reserve](#)

The return of lending standards to pre-pandemic levels may be complicated if the labor market’s lackluster recovery persists. In May, the unemployment rate inched up to 6.1% as 290k jobs were added to the economy. The May report sharply missed expectations, which had the economy growing by nearly one million jobs and the unemployment rate falling to 5.8%. Federal Reserve Vice Chair Richard Clarida [remarked](#) on the “disappointing employment report” noting that “the near-term outlook for the labor market appears to be more uncertain than the outlook for economic activity.”

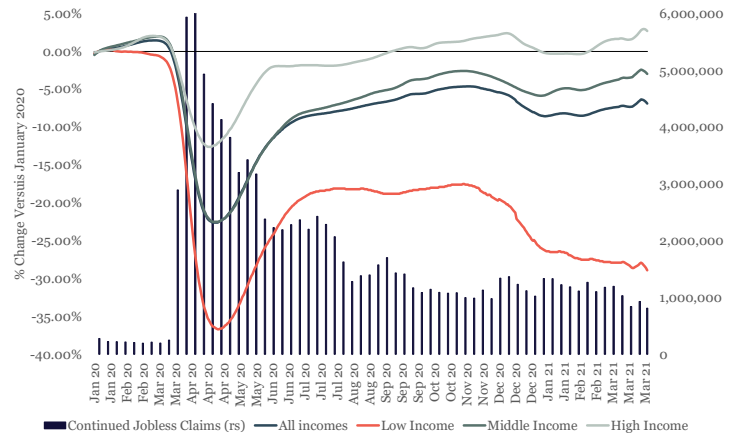
Private non-farm employment based on payroll data indicates that employment remains well below the pre-pandemic level for the low-wage worker. For workers in the bottom wage quartile (<\$27k), the employment rate in April 2021 is 29% below the January 2020 level. This is well below the employment rate for all workers, which currently stands 7% below the January 2020 level. When compared with high-wage workers (>\$60k), the difference is even more glaring. The employment rate for workers in the top wage quartile (>\$60k) rebounded in February 2021 and is currently 2% above its January 2020 level. Despite the steady addition of jobs since the peak of the pandemic, for low wage workers, hiring has not been sufficient enough to make up the 36% drop in employment experienced in April 2020.

Labor Market Improvements Stagnate
% of Unemployed 27 Weeks or More Hovers at 43%



Source: [U.S. Bureau of Labor Statistics](https://www.bls.gov)

Low-Wage Employment Rate Falls By 29%
Compared to January 2020 Level



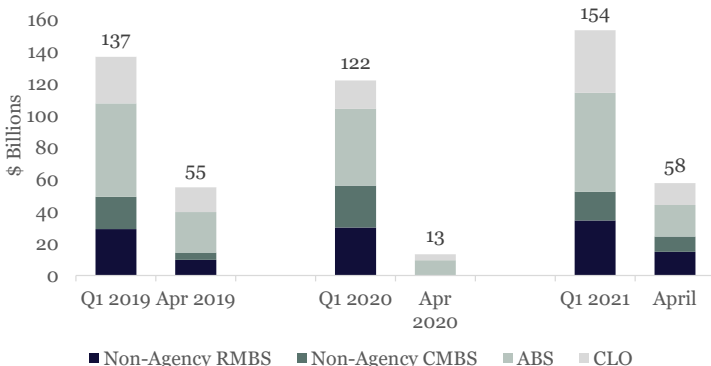
Data as of April 2, 2021.

Source: [tracktherecovery.org](https://www.tracktherecovery.org) using data sources from Earnin, Intuit, Kronos, Paychex, and U.S. Bureau of Labor Statistics

MARKET SUMMARY

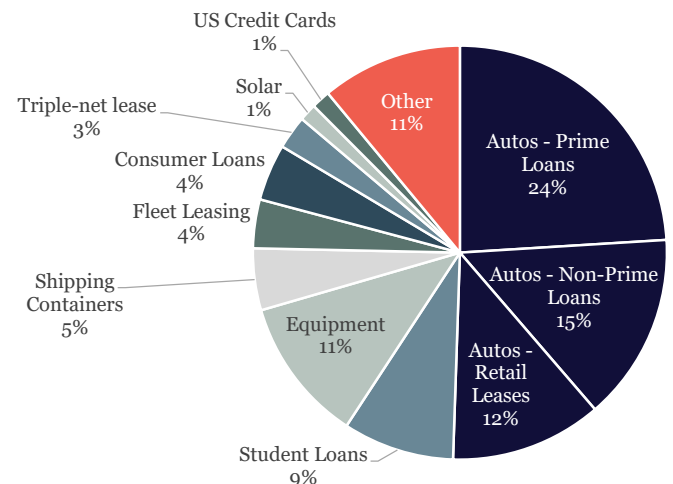
Issuance of Non-Agency RMBS, CMBS, ABS and CLOs through April has reached \$212 billion, 55% above 2020's level at this time and 10% above 2019's. Year-to-date issuance of SOFR-based securitizations stands at \$37.6 billion.

Issuance for Non-Agency RMBS and CMBS, ABS, and CLO
2021 YTD (\$212 Billion) Versus 2019, 2020



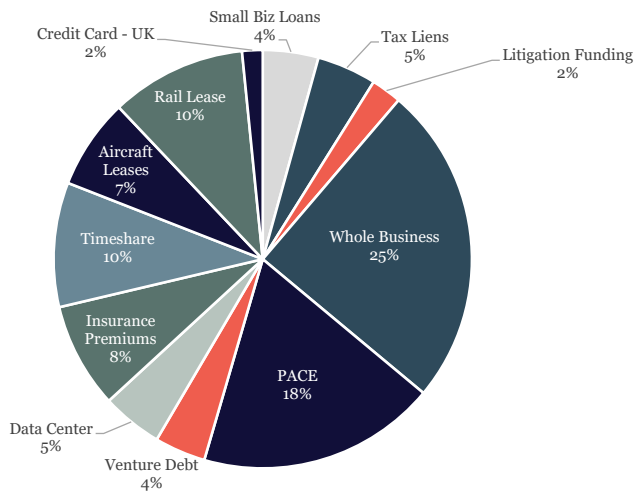
Source: Market Compilation

ABS Only - 2021 YTD: \$77.3 Billion



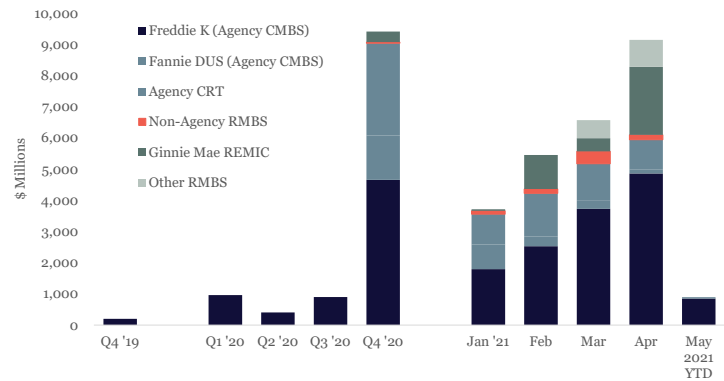
Source: Market Compilation

Other ABS Only - 2021 YTD: \$8.5 Billion



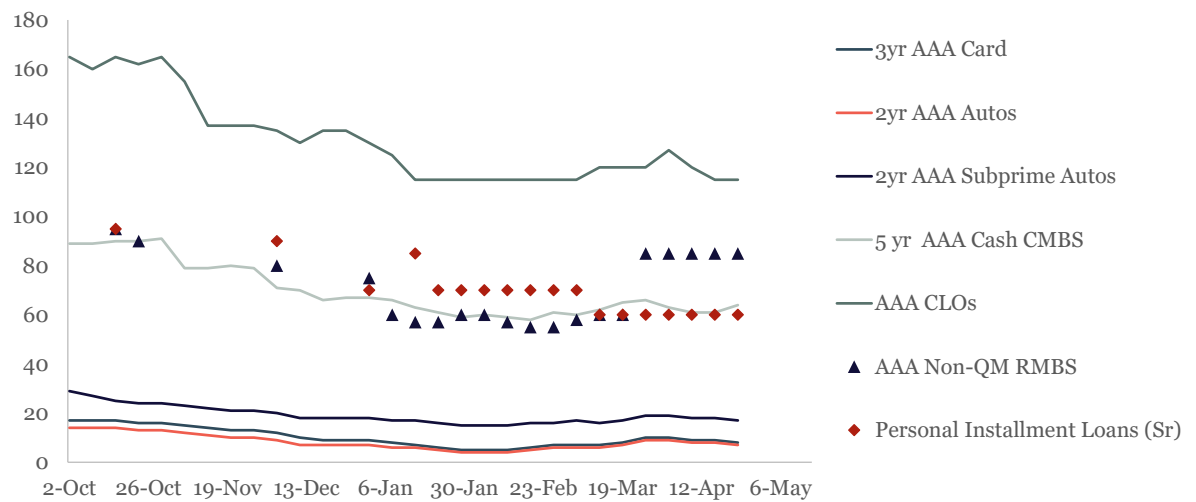
Source: Market Compilation

SOFR Securitizations - 2019 to 2021 YTD: \$37.6 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)	30-Apr	23-Apr
3yr AAA Card	7	8
2yr AAA Prime Autos	6	7
2yr AAA Subprime Autos	16	17
5yr AAA Cash CMBS	65	64
AAA CLOs	115	115