

SFA Research Corner

Continued Jobs Improvement Supports Securitization

June 8, 2021

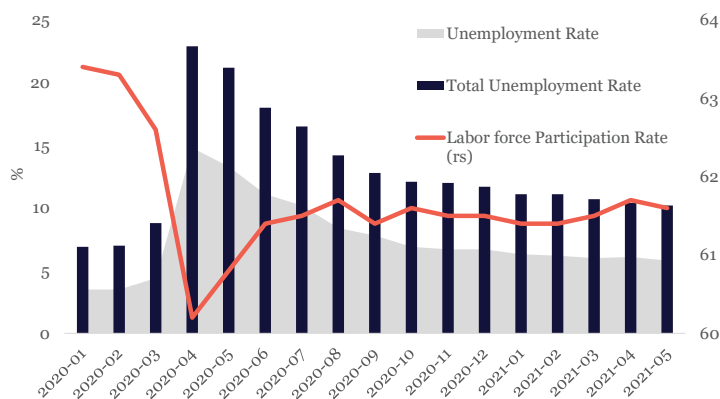


WHAT WE'RE WATCHING

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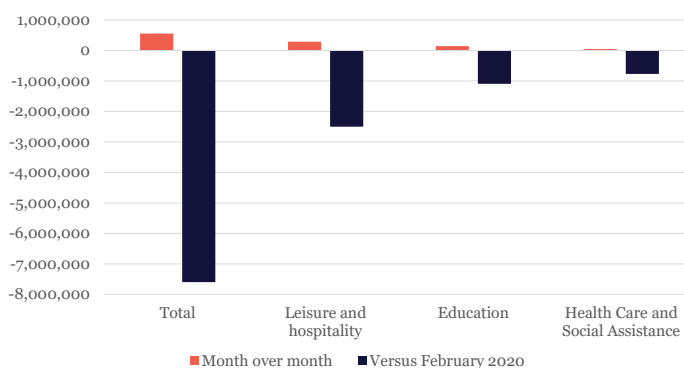
The [May jobs report](#), while positive, reflects a labor market still dealing with the lasting effects of the pandemic. The economy gained 559,000 jobs in May, on balance. The unemployment rate declined from 6.1% to 5.8%. The total unemployment rate, a measure that includes the total number of unemployed plus all people marginally attached to the labor force and people at work part-time for economic reasons, fell from 10.4% to 10.2%. The labor force participation rate, which measures the percentage of the population that is either working or actively looking for work, was 61.6%. This metric is 1.7 points lower than its measurement in February 2020 and has been range bound since June 2020. While the number of long-term unemployed (those jobless for 27 weeks or more) declined to 3.8 million in May, this metric remains 2.6 million higher than in February 2020. While jobs were added to recovering sectors-- leisure and hospitality, health care and social assistance, education— the total nonfarm payroll employment rate remains below the pre-pandemic level by 7.6 million people.

Labor Market Reflects Lasting Effect of Pandemic



Source: [Bureau of Labor Statistics](#)

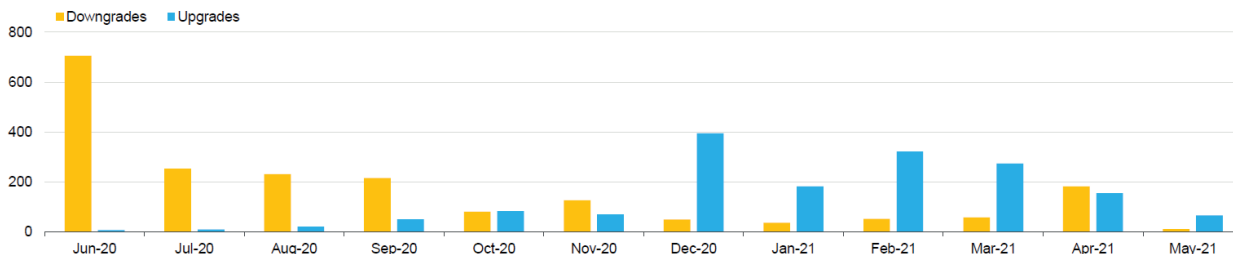
U.S. Economy Gained 559,000 Jobs in May; Employment Still 7.6mm Below Pre-Pandemic Level



Source: [Bureau of Labor Statistics](#)

Improving labor market conditions support securitization. In a recent report, Moody’s viewed “fundamental risks for securitization assets as generally declining.” As macro conditions improve, ratings performance has also improved. In 2021, ratings upgrades have “greatly exceeded” the downgrades, which is in “sharp contrast” to 2020. Most of the 2021 downgrades have been CMBS transactions with exposure to “troubled malls and hotels that continue to experience cash flow issues.”

**Upgrade Volume Has Surpassed Downgrade Volume in 2021
Moody's Monthly Upgrade and Downgrade Totals, by Number of Structured Finance Tranches**



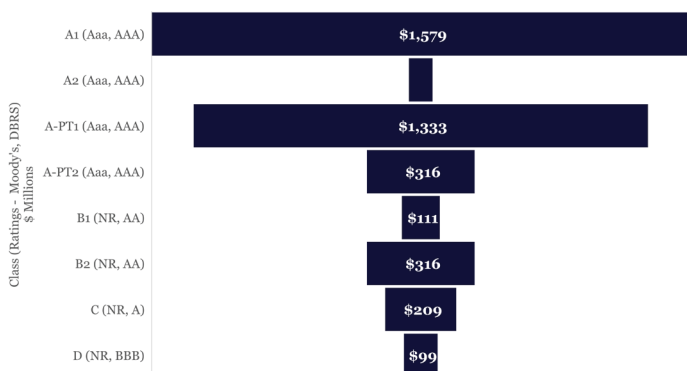
Through May 21. Source: Moody's Investor Service, Structured Finance – Global: Heard from the Market: Investors and Issuers See Improving Credit Environment

MARKET SUMMARY

At the end of May, issuance activity across Non-Agency RMBS and CMBS, ABS and CLOs reached \$259 billion. Noteworthy in May was the size of some of the ABS offerings such as the \$1.7 billion Verizon Master Trust Series 2021-1, which is backed by cellphone payment plan agreements, and the \$1.6 billion Honda Auto Receivables 2021-1 Owner Trust, which is backed by prime auto loans.

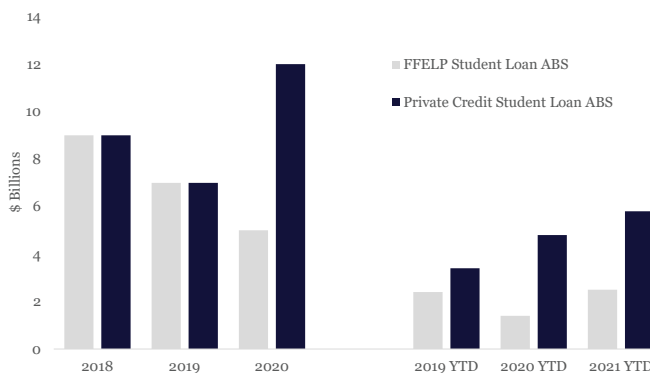
The largest of these large ABS offerings was Nelnet's first 2021 offering, the \$4 billion Nelnet Student Loan Trust (NSLT) 2021-A. According to a [JP Morgan Research Note](#), "[t]he huge deal size is unprecedented, particularly in the private credit student loan ABS sector, where the largest transaction in recent years was SMB [Sallie Mae Bank] 2021-A at \$1.2bn and the average deal size in 2021 thus far is tracking \$625mn."

**Nelnet Student Loan Trust (NSLT) 2021-A
Total Balance at Issuance \$4 Billion**



Source: Bloomberg

**Student Loan ABS Issuance 2018-2021 YTD
FFELP vs Private Credit**

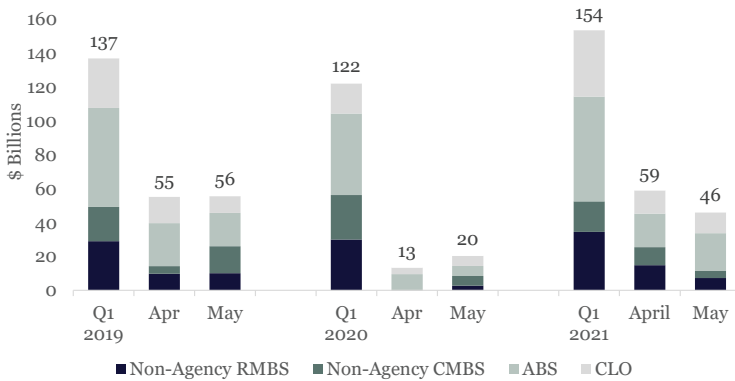


Source: JP Morgan, Securitized Products Weekly, May 14, 2021

NSLT 2021-A is backed by “private in-school and consolidation student loans originated by Wells Fargo and its affiliates from 1992 to 2020,” according to the [Moody’s Pre-Sale Report](#). The loans are high-quality with an average FICO score of 769 at origination. Moreover, “approximately 72% of borrowers currently in repayment... [and] approximately 69% of those borrowers have been in repayment 3 or more years.” [DBRS Morningstar](#) expects defaults to be “considerably lower compared with newly originated loans with similar characteristics.”

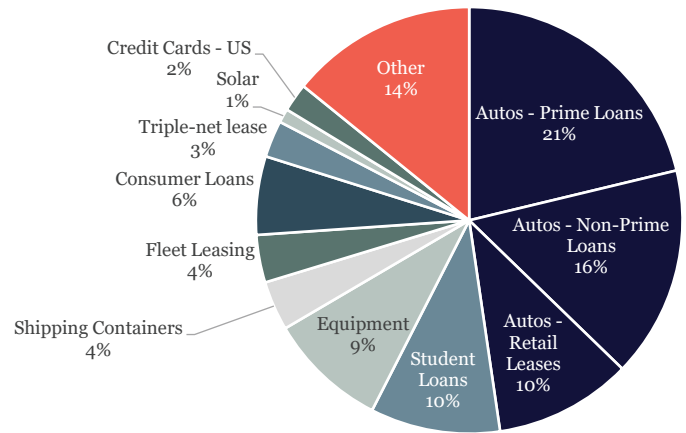
Firstmark, a division of Nelnet Inc., purchased [Wells Fargo’s](#) \$10 billion private student loan portfolio in December 2020 following the bank’s September announcement to exit the student loan business. Nelnet Inc. (rated Ba1, BBB- and BBBL, by Moody’s, S&P and DBRS Morningstar, respectively) has been servicing student loans since 1978. As of December 2020, Nelnet’s servicing portfolio totaled \$490 billion across 15 million borrowers.

**Issuance for Non-Agency RMBS and CMBS, ABS, and CLO
2021 YTD (\$259 Billion) Versus 2019, 2020**



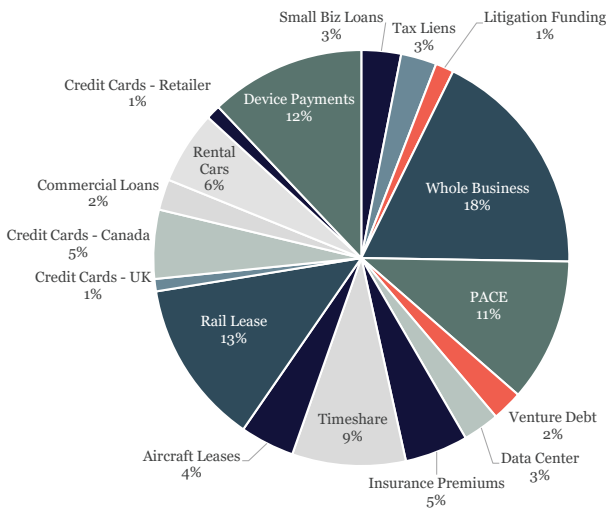
Source: Market Compilation

ABS Only - 2021 YTD: \$99 billion



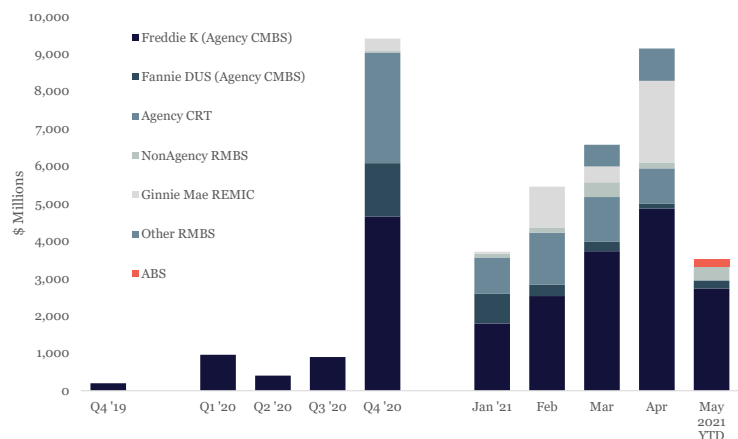
Source: Market Compilation

Other ABS Only - 2021 YTD: \$14 billion

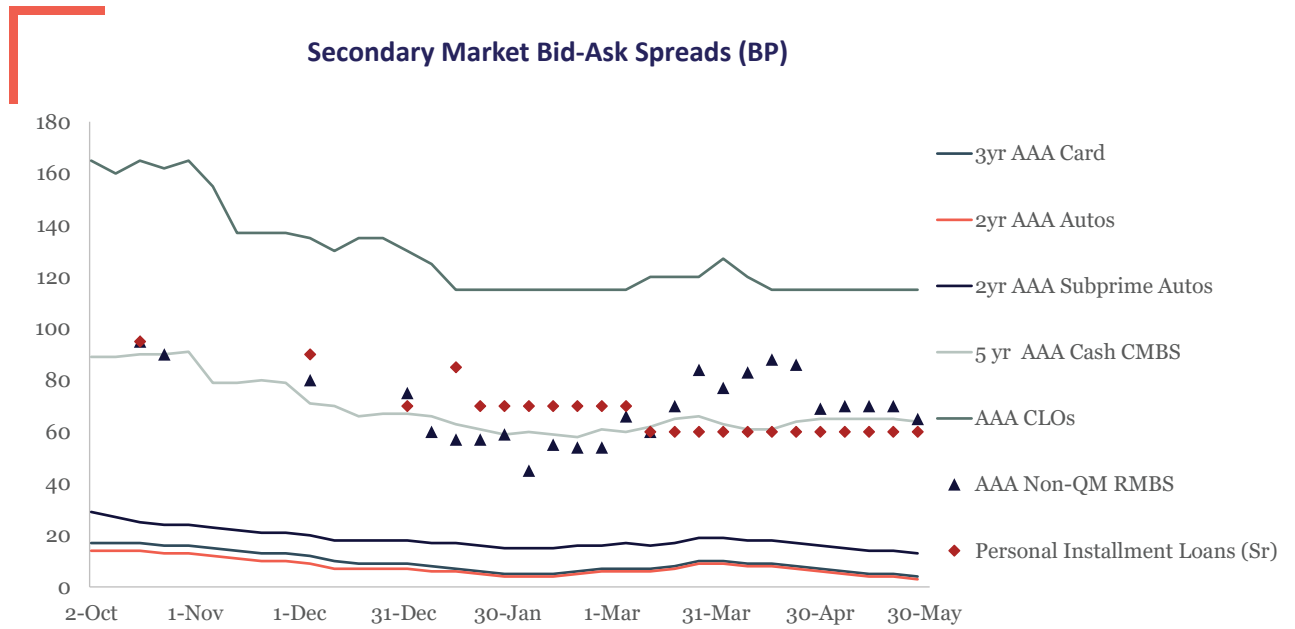


Source: Market Compilation

SOFR Securitizations - 2019 to 2021 YTD: \$40.2 Billion



Other MBS includes mortgage insurance-linked securities.
Data begins Q3 2019.
Source: Market Compilation



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	28-May	21-May
3yr AAA Card	4	5
2yr AAA Prime Autos	3	4
2yr AAA Subprime Autos	13	14
5yr AAA Cash CMBS	64	65
AAA CLOs	115	115