STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

End of Unemployment Benefits Could Lead to Short-Term Up-Tick in Delinquencies and Credit Card Debt

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WHAT WE'RE WATCHING

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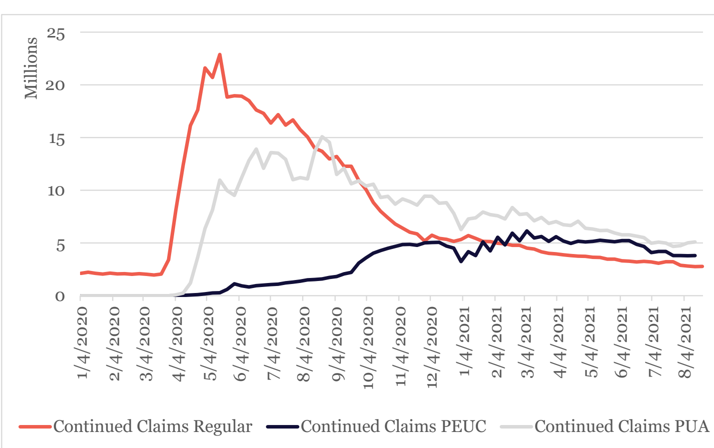
Pandemic-related unemployment insurance (UI) benefits expired across the country on Labor Day. The most recent data (week ending August 21) shows 5.1 million continued weekly claims for **Pandemic Unemployment Assistance** (PUA) benefits and 3.8 million continued claims for **Pandemic Emergency Unemployment Compensation** (PEUC) benefits.

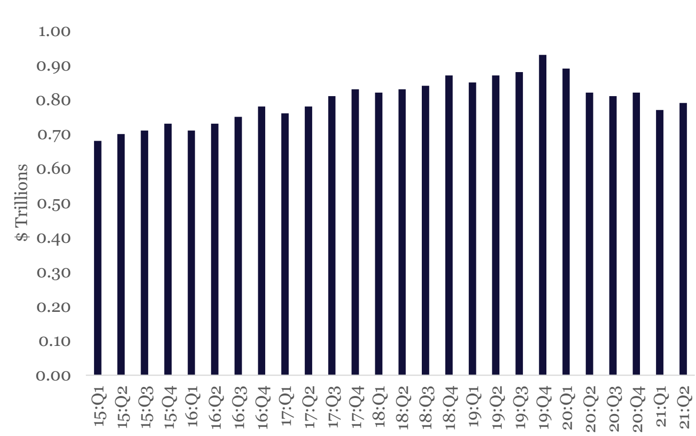
Supplemental (UI) benefits during the pandemic have been a "critical lifeline" to households coming into the pandemic, many of whom were facing financial vulnerabilities. Although some of the unemployed may be able to fall back temporarily on savings squirreled away during the pandemic, the impact on households will depend on how quickly unemployed workers find employment and how these wages compare to the total amount received under unemployment. While some states with high unemployment and rising COVID cases may be able to extend UI benefits through allocations provided by President Biden's American Rescue Plan, other states, such as New York where an $11 billion deficit and state law blocks participation, will not. These changes, along with the expiration of other pandemic-related assistance programs, will impact the performance of consumer securitizations as previously these program have been instrumental in keeping delinquencies and defaults low on consumer loan portfolios. Without supplemental UI benefits, we may also see a rise in credit card borrowings by the financially vulnerable. Even in cases where new employment is found quickly, if wages are lower than UI benefits, consumers may have to turn to credit card loans to temporarily supplement income.

Continued Claims: Regular Versus PEUC, PUA



Source: Department of Labor

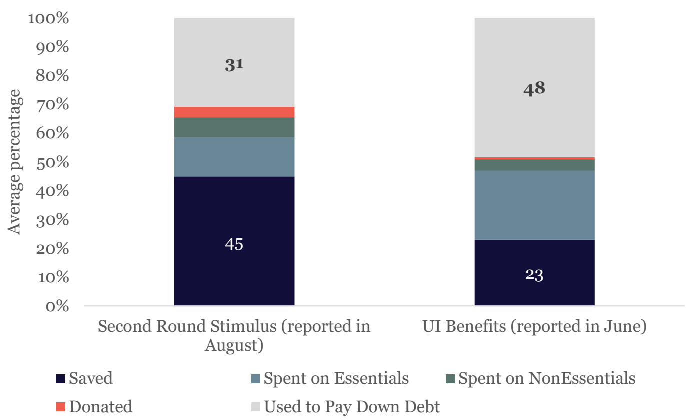
Credit Card Debt Fell During Pandemic; May Riseas Jobless Bridge Gap



Source: FRBNY Consumer Credit Panel/Equifax

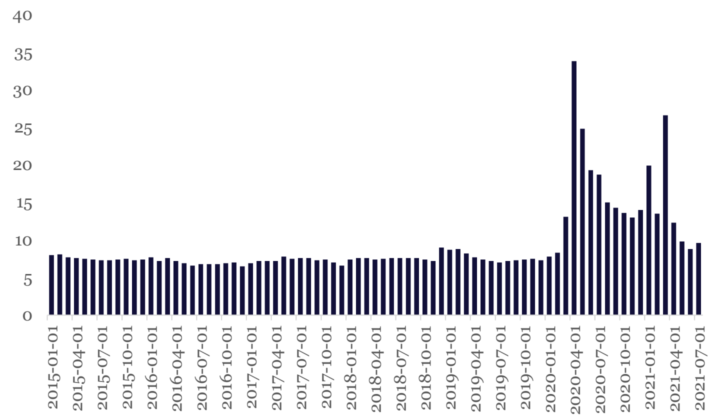
PUA expanded unemployment benefits to unemployed gig workers, contractors, business owners and people with limited work histories to receive $300 a week for the period between January 2021 and September 5, 2021. PEUC extended state unemployment insurance benefits for up to 53 weeks for those who qualified for traditional unemployment benefits, which are typically 26 weeks. While unemployed, individuals eligible for PEUC were also eligible to receive **Federal Pandemic Unemployment Compensation** (FPUC) payments of $300 per week for the period between January 2021 and September 5, 2021. Individuals eligible for PEUC may also have received **Mixed Earner Unemployment Compensation** (MEUC) which provided $100 weekly to those who received artificially low UI benefits due to only part of their income coming from W-2 wages. Although PUA and PEUC applications will continue to be accepted through Saturday, Oct. 2, they can only be applied for weeks of unemployment prior to ending benefits.

48% of Unemployment Benefits and 31% of Stimulus Used to Pay Down Debt



Source: Federal Reserve Bank of New York

Personal Savings Rate Surged During Pandemic

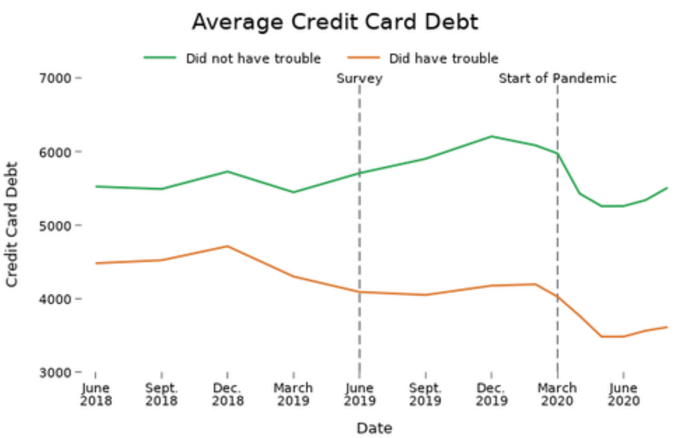


Source: U.S. Bureau of Economic Analysis

Unemployment assistance was critical for households. Coming into the pandemic, many American households were ill-prepared to handle an unexpected crisis. In its July 2019 Making Ends Meet Survey, the Consumer Financial Protection Bureau reported that "52% of consumers could cover expenses for two months or less if they lost their main source of income" and "40 percent of U.S. consumers reported that they had difficulty paying a bill or expense in the previous year." Moreover, "households that suffered a period of unemployment, reduced work hours or an inability to work because of illness were twice as likely to report having difficulty paying a bill or expense than households that had not experienced these events." For households impacted by the pandemic, it would not have been surprising to see an increase in credit card debt and a decrease in savings as borrowers scrambled to bridge pandemic-induced financial gaps.

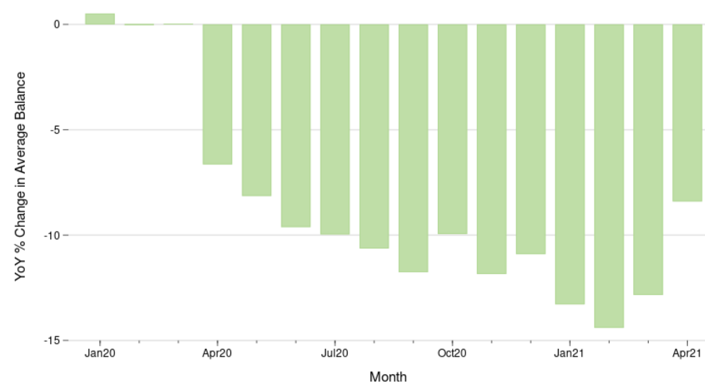
Indeed, we saw the opposite. During the pandemic, households, even those considered financially vulnerable, paid down debt and bolstered savings. According to the Federal Reserve Bank of New York, recipients used 48% of UI benefits to pay down debt and 23% was moved into savings. Households had a particularly strong motivation to stay current on their bills during unemployment, as not doing so would have negative consequences on their credit score and could impact their ability to access credit in the future. An earlier St Louis Fed report, from August 2020, concludes that "the additional unemployment benefits provided by the CARES act has implications not only for the labor market but also for household delinquencies. We found that delinquencies could have been significantly higher in the absence of this relief plan, which could have consequences in terms of financial stability." Anxiety about future financial i nsecurity, including job prospects, may have influenced consumer behavior to reserve the use of credit for when they would need it most, which could be now.

Steep Decline in Credit Card Debt for All Borrowers - Those That Had Trouble Paying Debt and Those That Did Not



Source: CFPB

Average Credit Card Balances Have Continued to Decline During the COVID-19 Pandemic



Source: CFPB

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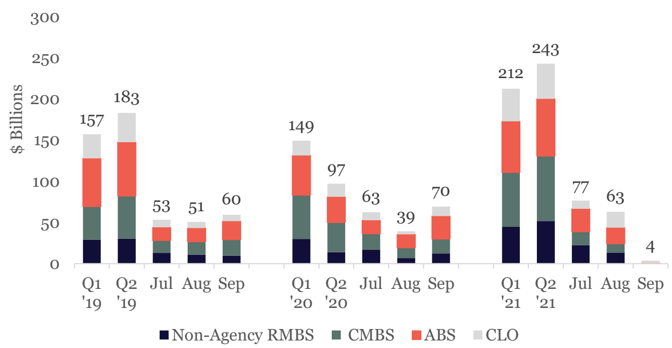
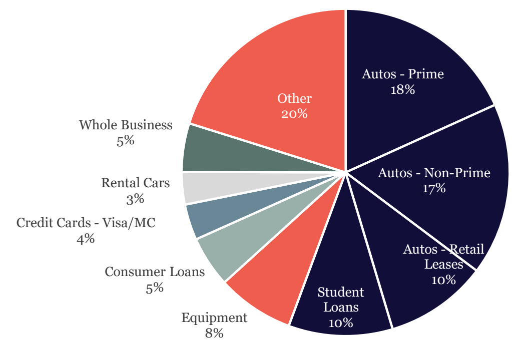
MARKET SUMMARY

Issuance* for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($595 Billion) Versus 2019, 2020



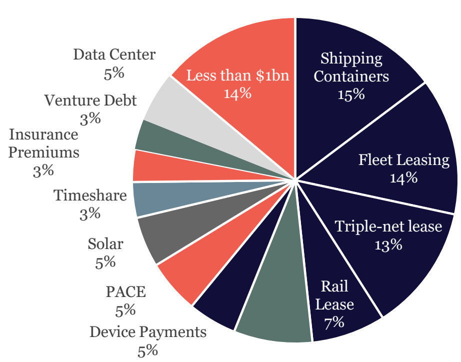
Revised to include Agency CMBS issuance and updated non-Agency RMBS.
Source: Deutsche Bank, Market Compilation

ABS Only 2021 YTD: $179 billion



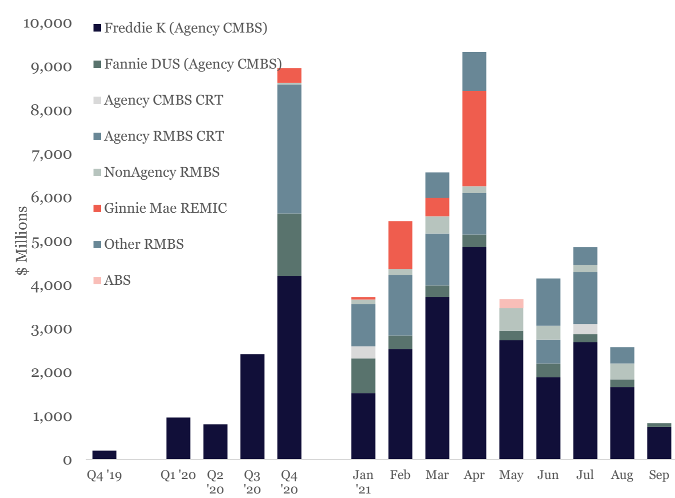
Source: Deutsche Bank, Market Compilation

Other ABS Only 2021 YTD: $35 billion



ABS with YTD volume that is less than $1 bn YTD include ABS backed by Canadian credit cards, venture debt, data centers, auto dealer floorplan loans, small business loans, tax liens, commercial loans, secured fund fee, oil contracts, UK credit cards, litigation funding, retail credit cards.
Source: Deutsche Bank, Market Compilation

SOFR (30 Day Average) Securitizations 2019 to 2021 YTD: $54 billion



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

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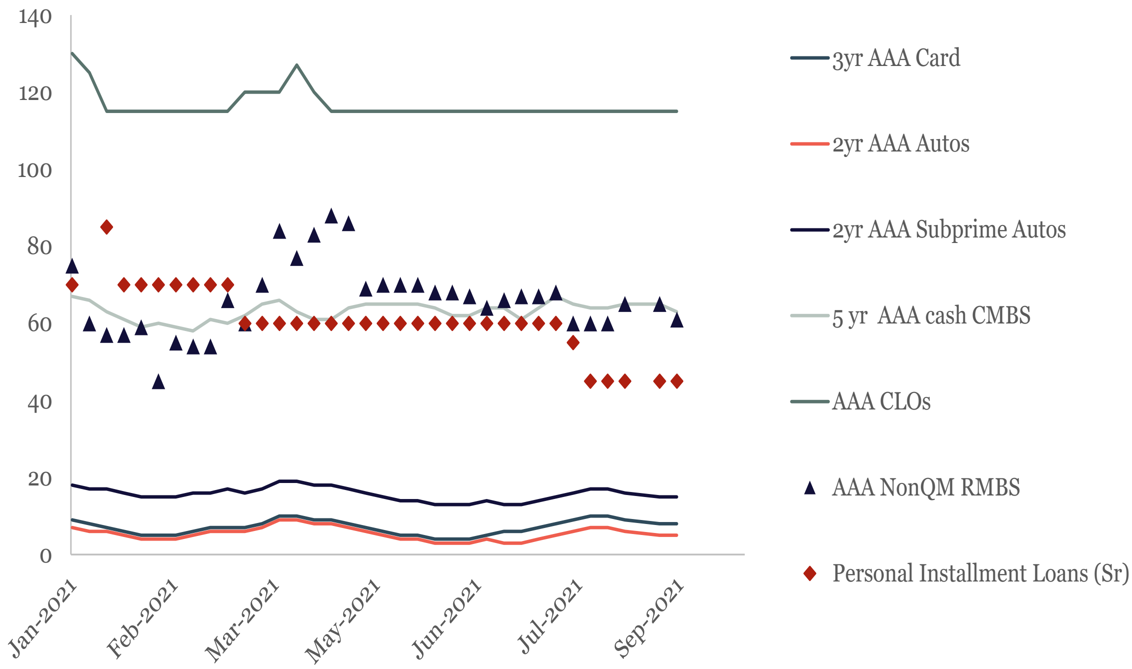
Secondary Market Bid-Ask Spreads (BP)



Secondary Market Bid-Ask Spreads		
(bps)	3-sep	27-aug
3yr AAA Card	8	8
2yr AAA Prime Autos	5	5
2yr AAA Subprime Autos	15	15
5yr AAA Cash CMBS	63	65
AAA CLOs	112	115

Source: Market Compilation