STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Household Balance Sheets and Labor Markets Robust Even as Relief Programs Roll Off

September 7 , 2021

WHAT WE'RE WATCHING

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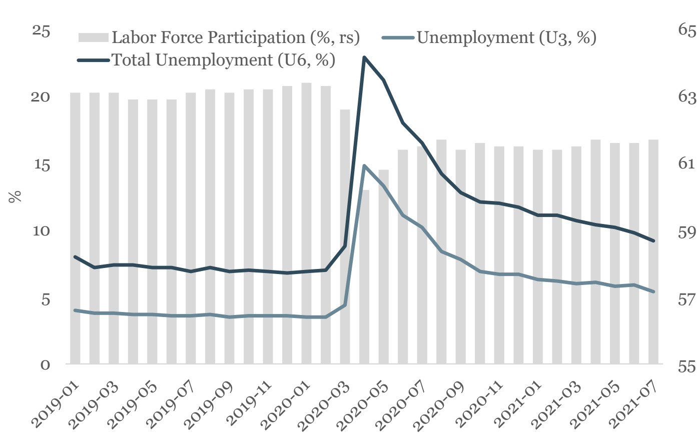
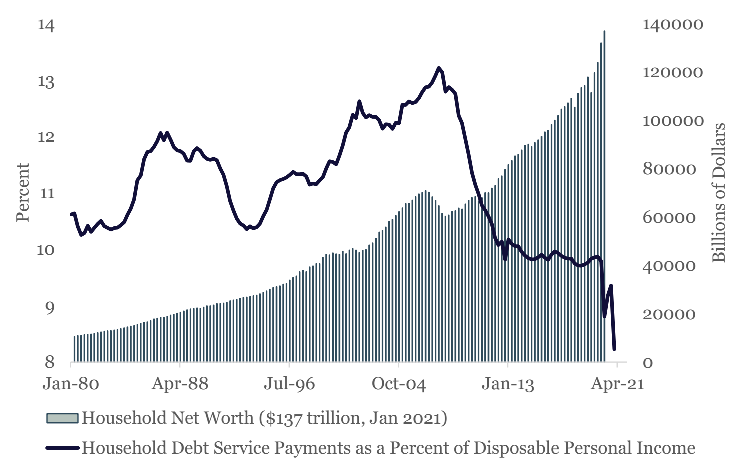
On August 26, 2021, the Supreme Court blocked the Biden administration's moratorium on evictions, which had been extended for the fourth time by the Centers for Disease Control and Prevention (CDC). The Court ruled "If a federally imposed eviction moratorium is to continue, Congress must specifically authorize it." The moratorium, which had been originally included in the March 2020 CARES Act and has primarily benefited low-income households, was set to expire on October 3, 2021. The repeal of the moratorium represents another step away from the safety net of federal programs that were put in place to aid households impacted by COVID-related financial hardships. This safety net, which has included stimulus checks, enhanced unemployment benefits, and generous payment relief programs, has kept delinquencies and losses on consumer loans at bay and near historical lows, despite elevated levels of unemployment and underemployment. As this safety net disappears, losses and delinquencies will revert to more historic norms and will once again track the strength of the labor market. Thanks to strong stock market gains, the biggest housing market gains in over a decade, and a prolonged low interest rate environment, household balance sheets, at least in aggregate, are robust; household net worth now stands at $137 trillion. However, some lower-income households and Black and Hispanic households that have not been able to participate in the stock and housing boom, and who are also facing the highest rates of financial hardship and health impact as a result of COVID, will find it more difficult to bridge the financial chasm.

Labor Market Continues to Strengthen



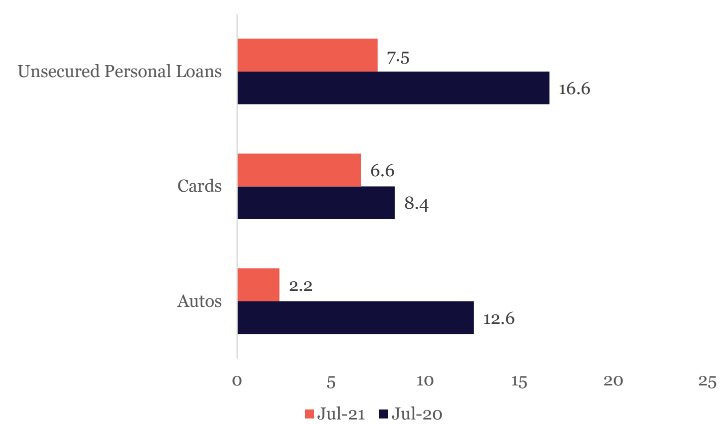
Source: U.S. Bureau of Labor Statistics

Household Balance Sheets are Robust - Debt Service Payments Hit New Lows as Net Worth Hits New High



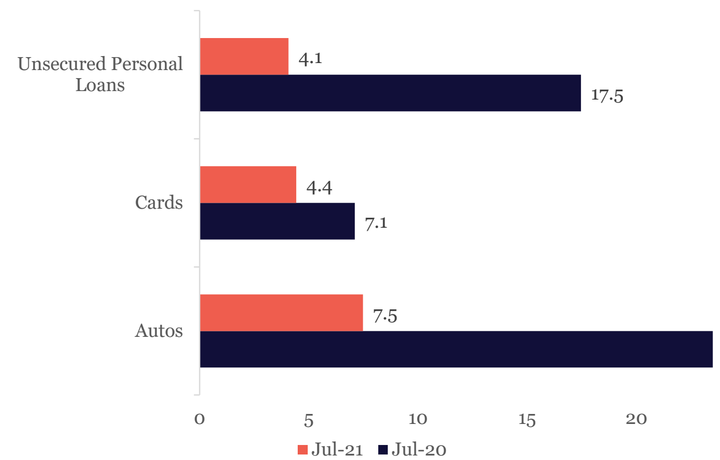
Source: Federal Reserve

TransUnion: % of Accounts in Hardship By Account Type Prime and Above



Source: [TransUnion]

TransUnion: % of Accounts in Hardship By Account Type Non-Prime and Below



Source: [TransUnion]

Although assistance still exists – such as rental assistance, student loan forbearance and extended unemployment benefits funded through the federal government, eviction moratorium through the state and local governments, and debt payment assistance through private lenders – we have seen a decline in usage. We see the improvement, for example, in the number of accounts reporting financial hardship status, which have dropped significantly according to the July 2021 TransUnion's Monthly Industry Snapshot. Auto loans to prime and above borrowers saw the most improvement, with an 82% decline in the number of accounts reporting a hardship between July 2020 and July 2021. For borrowers in the nonprime and below credit tiers, unsecured personal loans saw the most improvement, dropping 77% during the same 12-month period. The percentage of mortgage loans in hardship dropped 54% across all credit tiers, from 6.15% to 2.80% during this period.

Despite the recent surge in the virus and a broad-based collapse in consumer sentiment, as job gains and wage growth plateau, there is little likelihood that additional stimulus and widespread assistance will be forthcoming. Without the safety net of public/private assistance programs, credit performance will normalize and revert to tracking unemployment. Given the strength of household balance sheets, however, we do not expect a widespread deterioration in credit performance of consumer-backed securitizations, and, in particular, in the sectors backed by prime loans and leases.

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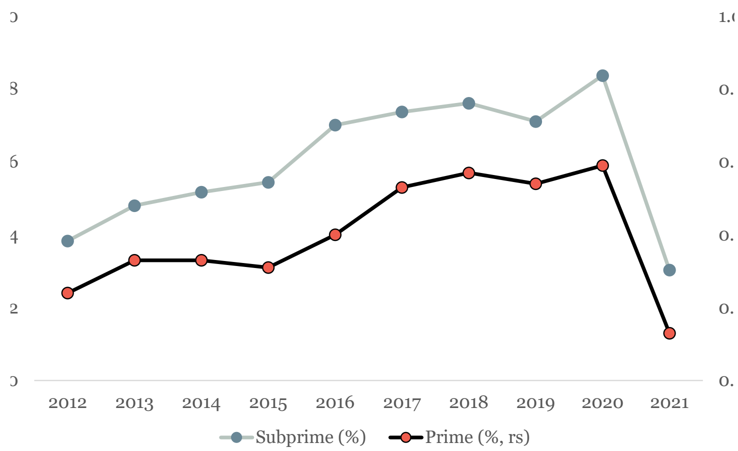
Auto ABS Monthly Annualized Net Loss Rate (For March of Given Year)

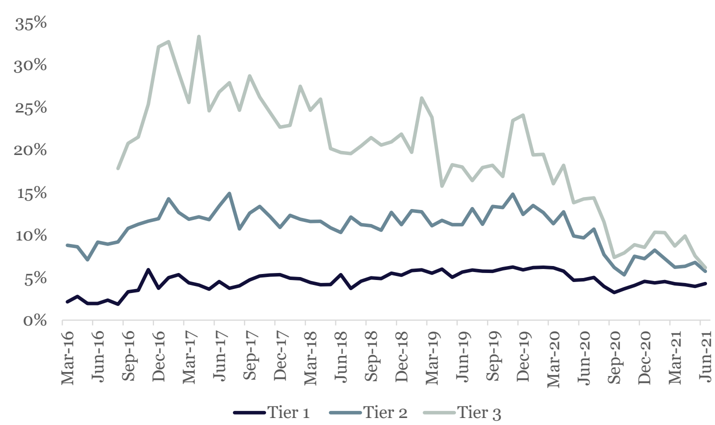


Source: [S&P Global]

Credit Card ABS Charge-offs and Delinquencies

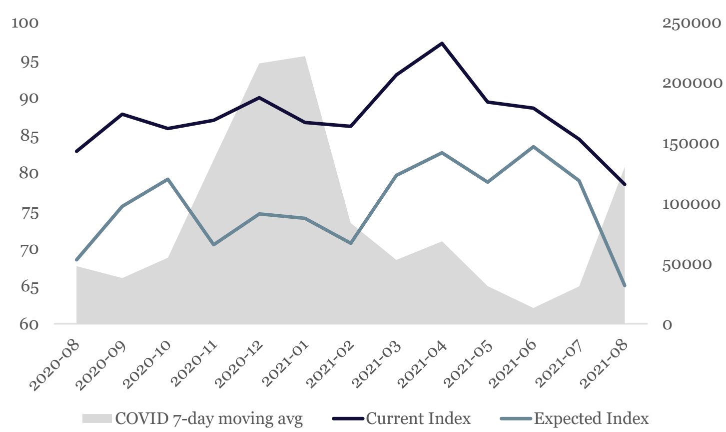
Source: [Moody's]

KBRA's Marketplace Consumer Loan Indices Annualized Net Loss Rate



Source: [KBRA]

But COVID Resurgence Has Given Pause; Consumers Show [Loss of Confidence] in August



Source: [University of Michigan]: [Consumer Sentiment; CDC COVID Tracker]

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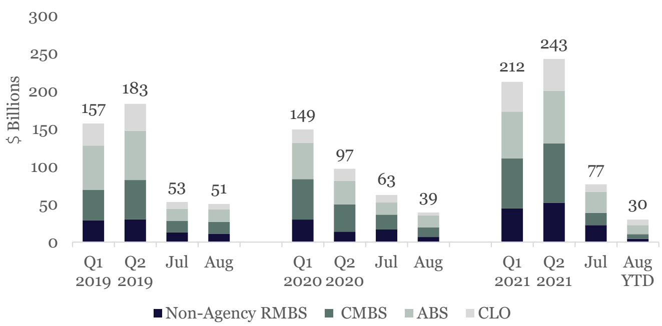
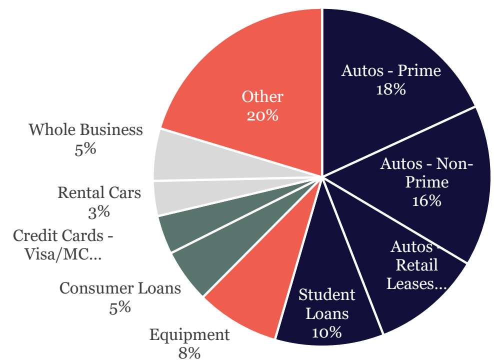
MARKET SUMMARY

Issuance* for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($562 Billion) Versus 2019, 2020



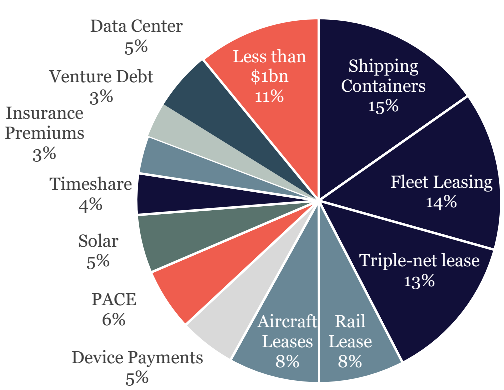
Revised to include Agency CMBS issuance and updated non-Agency RMBS.
Source: Deutsche Bank, Market Compilation

ABS Only 2021 YTD: $167 billion



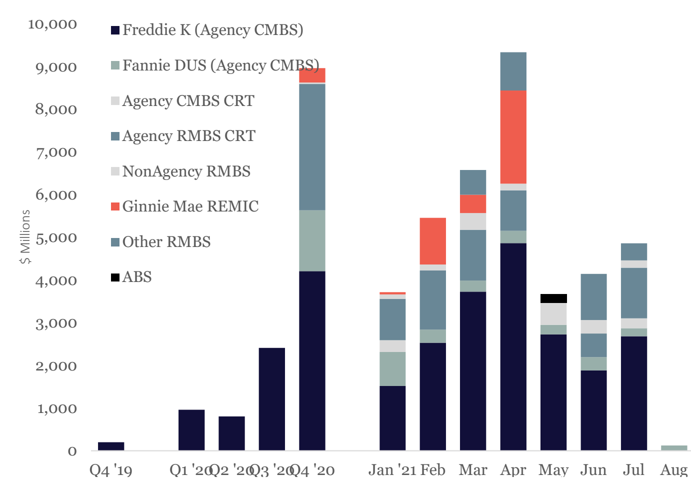
Source: Deutsche Bank, Market Compilation

Other ABS Only 2021 YTD: $34 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

Single-Family Rental Properties by Owner Type (2014)



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

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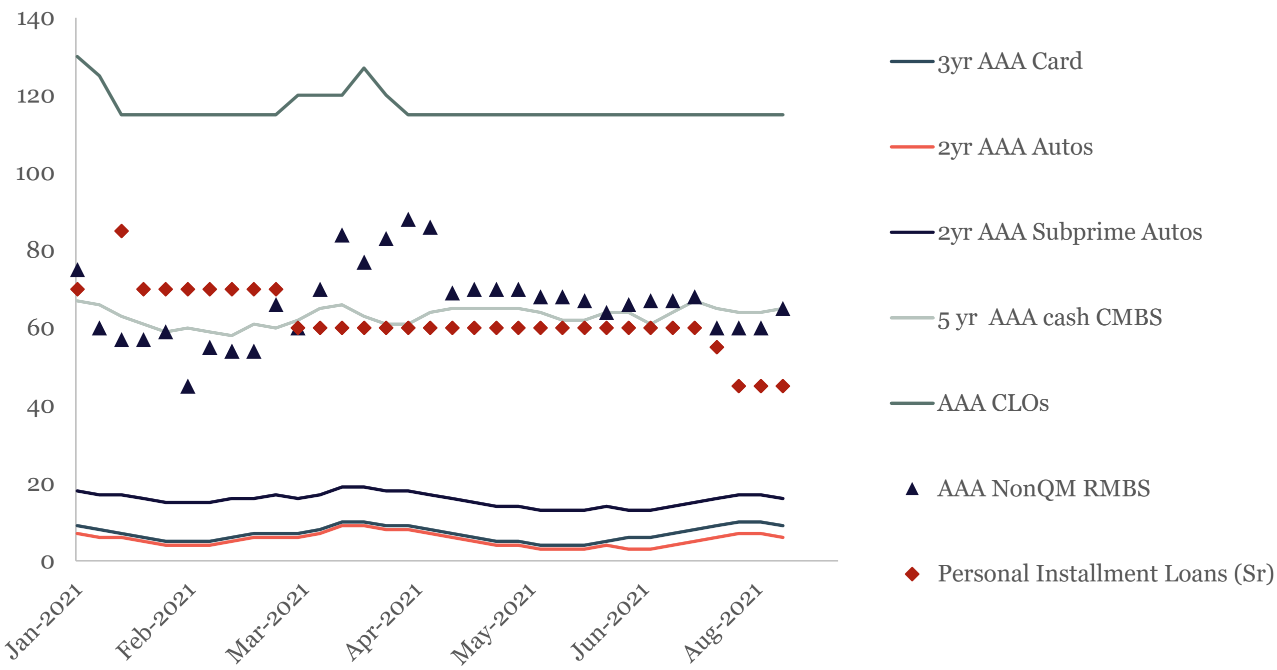
Secondary Market Bid-Ask Spreads (BP)



Secondary Market Bid-Ask Spreads		
(bps)	13-Aug	6-Aug
3yr AAA Card	9	10
2yr AAA Prime Autos	6	7
2yr AAA Subprime Autos	16	17
5yr AAA Cash CMBS	65	64
AAA CLOs	115	115

Source: Market Compilation