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SFA Research Corner

Stronger Assets, Lower Household Debt and Improving Labor Market: The Trifecta of ABS Credit Performance

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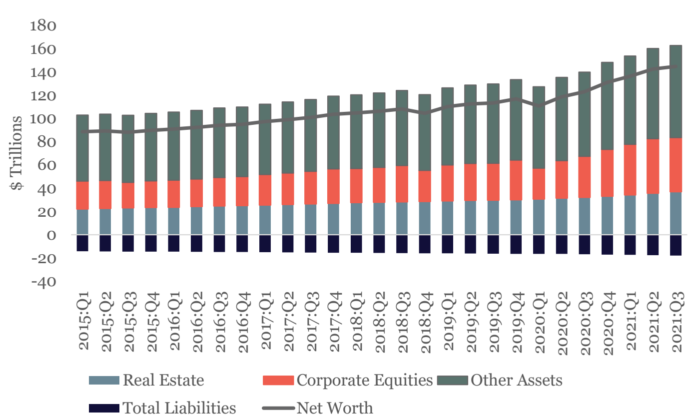
WHAT WE'RE WATCHING

[Elen Callahan](#)
Head of Research
203.512.0503

[Jessica Steele](#)
Research Analyst
202.847.4557

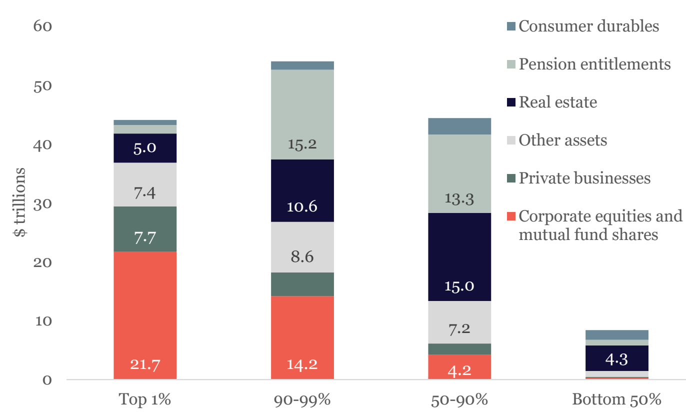
The pandemic recession and subsequent credit recovery uniquely impacted household finances. The historical relationship between unemployment and credit losses decoupled in 2020 as an unprecedented level of federal programs was put in place to shore up the finances of households impacted by public health policies. This was particularly helpful for lower-income groups whose high-touch jobs could not pivot to work from home. Pandemic-related economic support, however, was meant to be temporary. With the successful rollout of vaccines and subsequent business re-openings, the challenge in 2021 was how to terminate support without harming the nascent recovery. A preliminary look back suggests that we have succeeded for the most part, albeit unevenly, and through fits and starts. Robust asset values coupled with lower household debt and a strengthening labor market have helped many households meet their debt obligations, which bodes well for the credit performance of securitization backed by consumers loans.

Household net worth climbs to $145 Tn – 2% Above 2Q and 18% Above 3Q 2020



Source: *[Board of Governors of the Federal Reserve System Z.1 Release Financial Accounts of the U.S.](#)*

Assets Held By Wealth Percentile Group



Source: *[Board of Governors of the Federal Reserve System Z.1 Release Financial Accounts of the U.S.](#)*

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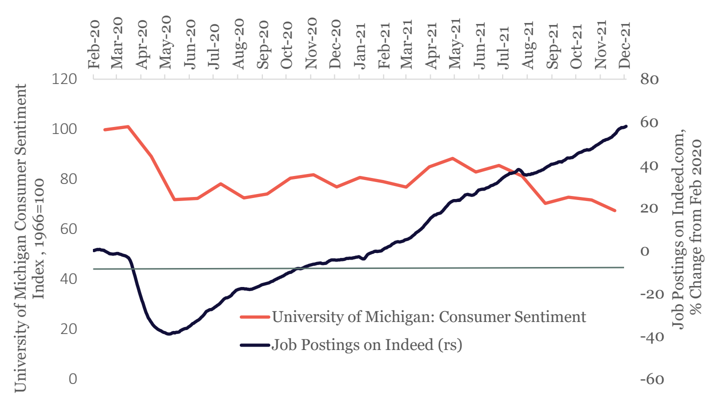
On December 9, the Federal Reserve released the Z.1 data for the third quarter of 2021. This data shows the financial accounts of the U.S. and includes flow of funds, balance sheet, and integrated macroeconomic account data. In the third quarter, household net worth, which is calculated by the Fed as the difference between total assets and liabilities of the household and nonprofit organizations sector, rose to $145 trillion, an increase of $2.3 trillion from the second quarter and $22 trillion above the level one year ago. Household net worth now stands $50 trillion above its level five years ago as assets have risen by 49% and liabilities by 21%. Real estate value, a meaningful driver of household wealth across demographics, has grown 4%, or $1.4 trillion, since the second quarter to $37 trillion, and is up 15%, or $4.76 trillion, versus one year ago. The value of real estate is up 50% since 2016. Additionally, corporate equities have provided a significant boost to household wealth as anyone with a mutual fund, retirement or pension plan can attest. The value of this asset in the household balance sheet has risen by 33% over the past year, and 90% over the past five years, to $47 trillion. However, not all have benefited equally from the rise in asset values. For example, the top 1% has benefited most from the rise in corporate equity values as this group holds nearly half, or $22 trillion, of this asset, while the bottom 50% holds well below $1 trillion.

Household Financial Obligations Ratio At Record Low

Financial Obligations Ratio (FOR) includes rent payments on tenant-occupied property, auto lease payments, homeowners' insurance, and property tax payments.
Source: Board of Governors of the Federal Reserve System (US) retrieved from FRED, Federal Reserve Bank of St. Louis

Job Postings on Indeed.com Rise 58% From February 2020 Level as Consumer Sentiment Falls



Source: Indeed, Job Postings on Indeed in the United States retrieved from FRED, Federal Reserve Bank of St. Louis, University of Michigan Consumer Sentiment Index 1966=100

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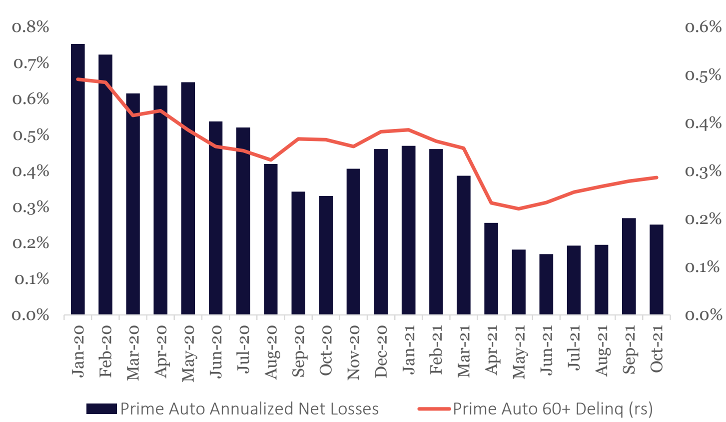
As net worth reaches new highs, households' financial obligations, as measured by the Fed's Financial Obligations Ratio, which measures the ratio of total required household debt payments to total disposable income, have fallen to a record low, and the labor market continues to strengthen. These factors have supported a consumer who is confident enough in their financial situation to spend and, with the help of a robust securitization market, responsibly take on new debt and pay down existing debt. Rising inflation may dampen this sentiment, however, as reported by the University of Michigan's Consumer Sentiment Index, which has been lackluster since the summer. The November reading at 67.4 represents the lowest reading for this metric since 2011. While the December preliminary reading inched higher to 70.4, consumers are concerned about the future with "nearly half of all consumers expect falling inflation-adjusted incomes during the year ahead."

Inflation concerns have taken center stage lately. At the highly awaited December FOMC meeting Fed Chairman Jerome Powell announced that the Fed will begin to take more aggressive actions to curb "elevated inflation pressures" which the Fed expects to persist "well into next year." Chair Powell declared that the Fed intends to use their tools to "prevent higher inflation from becoming entrenched." As a first step, the FOMC will reduce the monthly pace of its asset purchase program, noting similar reductions may be forthcoming in subsequent months. While the FOMC did not raise the overnight lending rate at this meeting, supporting documents show that the Committee raised its interest rate projections for 2022 and 2023.

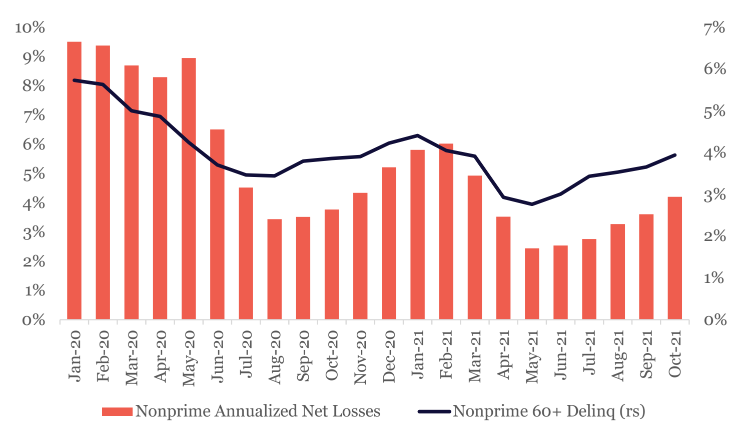
We review the performance of ABS pools backed by consumer loans. For all asset classes, losses have been low, and delinquencies are at or near historic lows. From these levels, we expect consumer ABS to withstand a modest rise in delinquencies or losses due to the continued normalization of credit or, to the extent that rising inflation impacts the labor market, to withstand challenges to a consumer's ability to pay.

Prime Auto ABS: Net Losses and 60+ Delinquencies



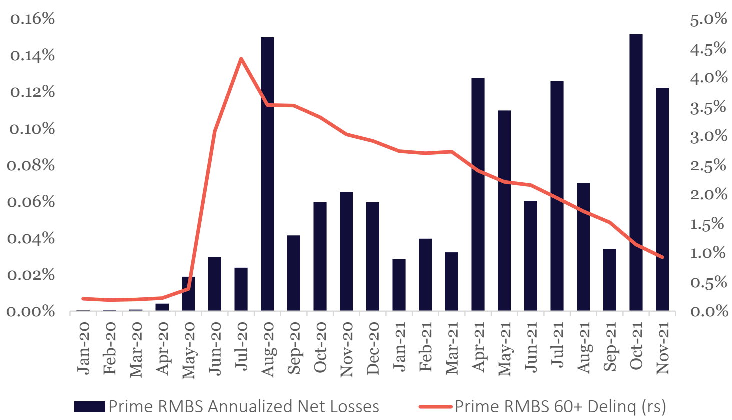
Source: *[KBRA Auto Loan Indices October 2021]*

Nonprime Auto ABS: Net Losses and 60+ Delinquencies



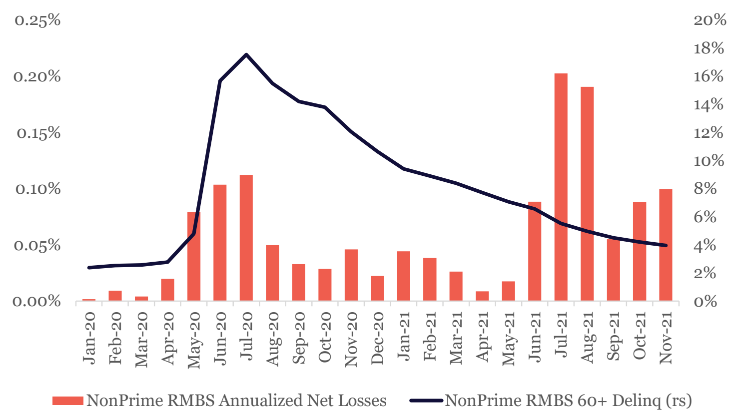
Source: *[KBRA Auto Loan Indices October 2021]*

Prime RMBS: Net Losses and 60+ Delinquencies



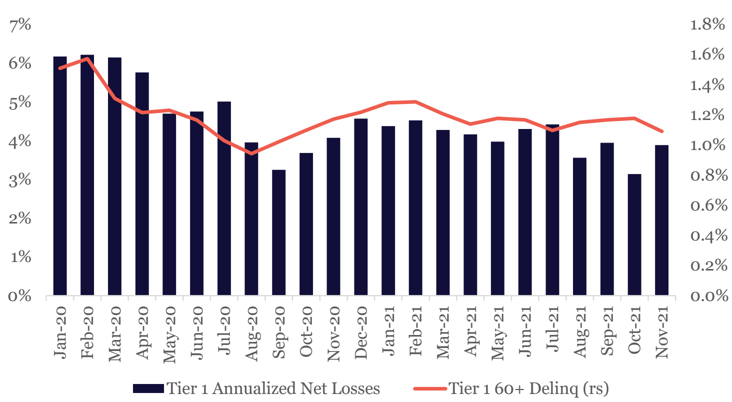
Source: KBRA RMBS Credit Indices November 2021

Nonprime RMBS: Net Losses and 60+ Delinquencies



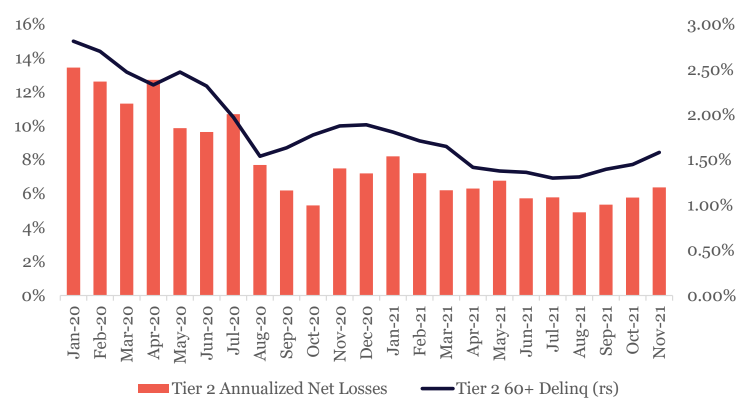
Source: KBRA RMBS Credit Indices November 2021

Tier 1 (Super Prime) Marketplace ABS: Net Losses and 60+ Delinquencies



Super Prime platforms have weighted average FICOs between 710 and 740.
Source: KBRA Marketplace Consumer Loan Indices November 2021

Tier 2 (Prime) Marketplace ABS: Net Losses and 60+ Delinquencies



Prime platforms have weighted average FICOs between 680 and 710.
Source: KBRA Marketplace Consumer Loan Indices November 2021

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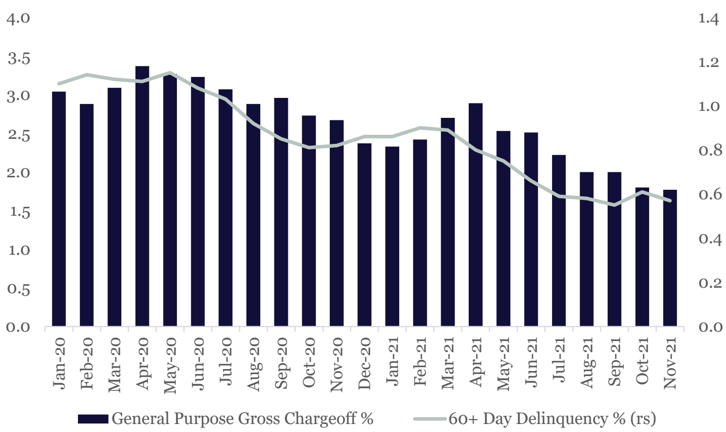
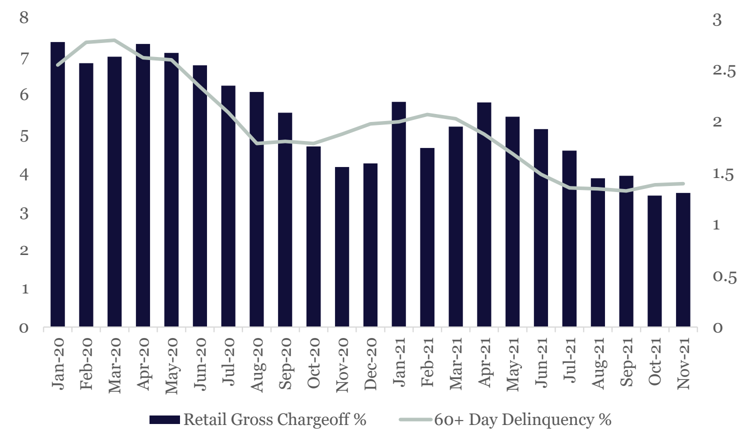
General Purpose Credit Card ABS: Gross Chargeoffs and 60+ Delinquencies



Source: [Fitch Credit Card Indices]

Retail Credit Card ABS: Gross Chargeoffs and 60+ Delinquencies



Source: [Fitch Credit Card Indices]

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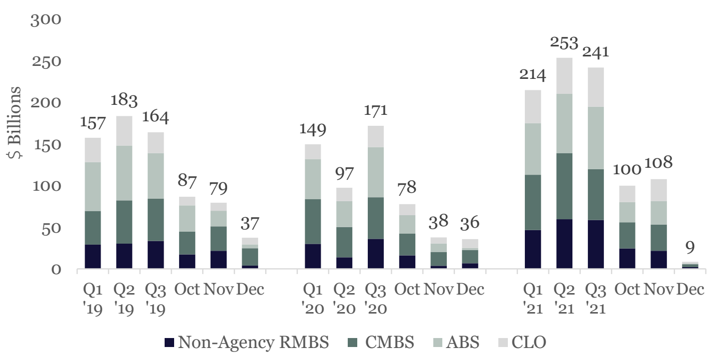
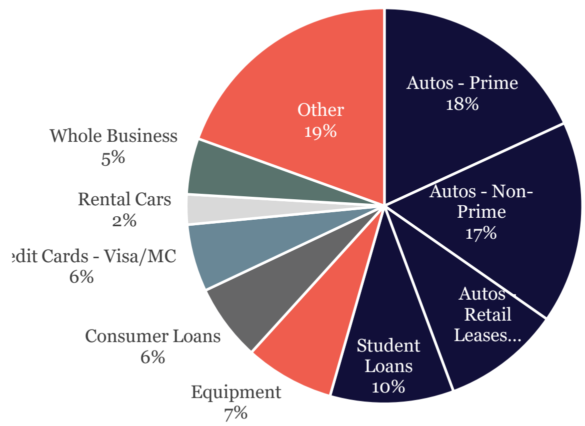
MARKET SUMMARY

Issuance for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($925 Billion) Versus 2019, 2020



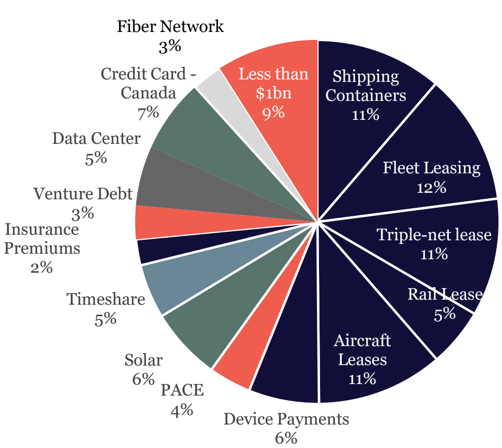
Source: Deutsche Bank, Market Compilation

ABS Only 2021 YTD: $254 billion



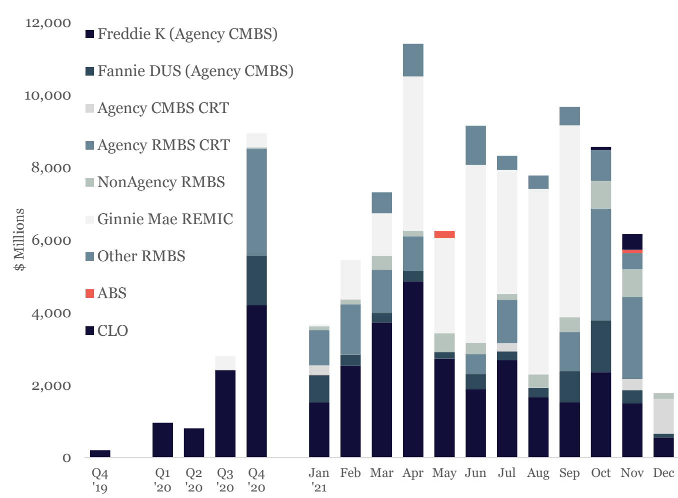
Source: Deutsche Bank, Market Compilation

Other ABS Only 2021 YTD: $50 billion



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

SOFR (30 Day Average) Securitizations 2019 to 2021 YTD: $99 billion



Other RMBS includes mortgage insurance-linked securities.
Data begins Q3 2019. Ginnie Mae data as of September 2021. Source: Market Compilation

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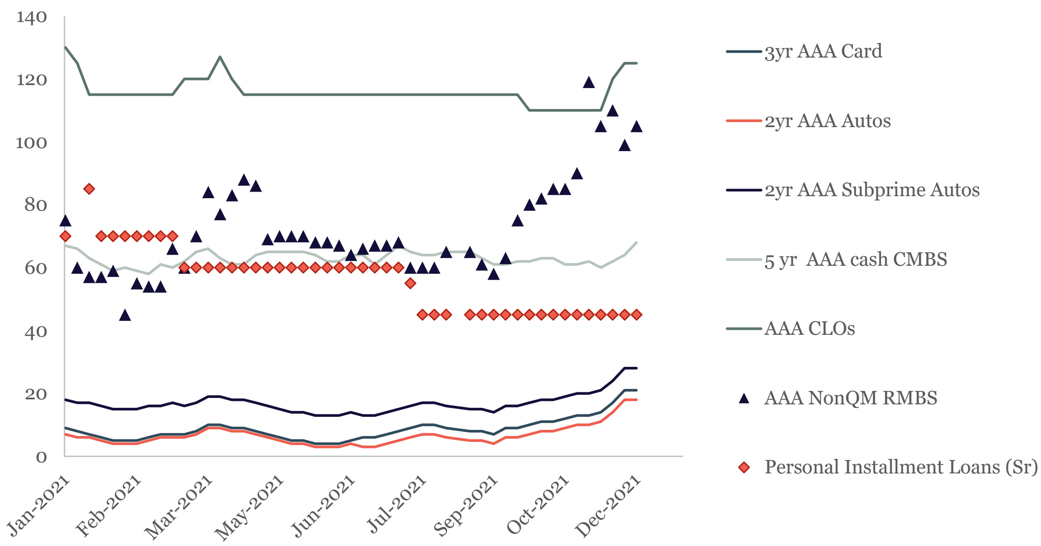
Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	3-Dec	19-Nov
3yr AAA Card	21	17
2yr AAA Prime Autos	18	14
2yr AAA Subprime Autos	28	24
5yr AAA Cash CMBS	68	62
AAA CLOs	125	120

Source: Market Compilation