STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Securitization Issuance Subdued in First Half of 2023

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Securitization Issuance Subdued in First Half of 2023

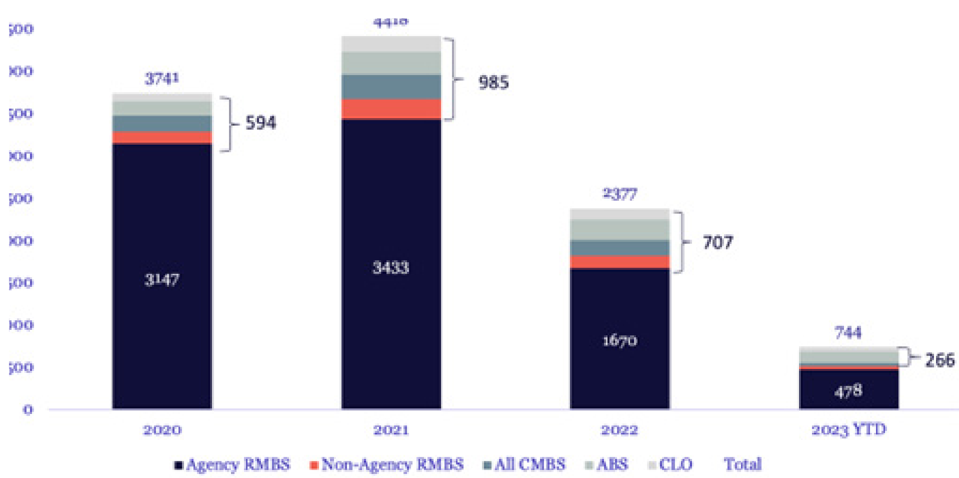
New issuance of securitized products reached $744 billion in the first half of 2022 with agency RMBS contributing $478 billion, or 64%, of supply. In the private market, ABS led the charge with $140 billion of new offerings, followed by CLOs with $53 billion. Non-agency CMBS and RMBS added another $19 and $37 billion, respectively.

Private market securitization volumes are down 45% compared to the first half of 2022. The decline has been led primarily by non-agency RMBS and CMBS volumes which fell by 80% and 73%, respectively, as higher interest rates negatively impact lending activity. CMBS, in particular, has been affected by property-specific dynamics. These secular shifts were exacerbated by the pandemic and have resulted in deteriorating credit conditions and weak liquidity for bonds with exposure to retail and office properties (see our discussion here). ABS and CLOs reflect a smaller drop, down 10% and 27%, respectively, over the same period.

There are two bright spots amidst the widespread decline in supply. Issuance of auto ABS increased 18% year-over-year, to $123 billion, as improving supply and demand dynamics support strong new vehicle sales, despite higher interest rates. Citi Research expects auto ABS issuance to end the year at $123 billion, up 9% over 2022. Middle-market CLOs have also seen an uptick. Issuance has more than doubled since this time last year, to $11 billion, as private credit (i.e. non-bank) lenders, some of whom are also CLO managers, increasingly tap the CLO market to secure capital for their loan business as credit conditions continue to tighten. Collateral for middle-market CLOs are typically senior secured loans to smaller, unrated companies with EBITDAs between $20 million and $100 million, according to S&P.

Credit risk spreads, which widened earlier in the year in response to banking turmoil news, have languished at wider levels reflecting a bearish outlook due to "headwinds from tighter credit conditions for households and businesses."

US Securitization Issuance YTD $744 billion



Source: SFA Market Compilation

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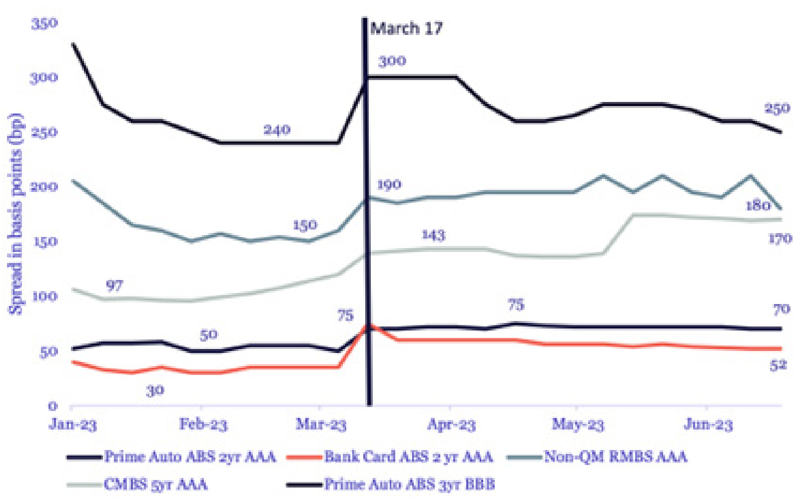
Drilling Down: Year-over-year Change in Issuance Volume (by $ Amount and Sector)

	YOY Change	2023 $ Amt (bns)		YOY Change	2023 $ Amt (bns)
Auto ABS	18%	123	Conduit CMBS	-53%	7
Student Loan ABS	0%	4	Agency CMBS	-62%	19
Equipment ABS	-8%	11	SASB CMBS	-81%	6
Esoteric ABS	-17%	43	CRE CLO	-95%	1
Credit Card ABS	-41%	10			
Reperforming Loans RMBS	-3%	6.4			
Non QM RMBS	-38%	15	GNMA RMBS	-39%	178
Other RMBS	-53%	5.2	FHLMC RMBS	-60%	140
CRT RMBS	-74%	4.5	FNMA RMBS	-62%	160
Jumbo RMBS	-75%	4.1			
Nonperforming Loans RMBS	-81%	0.5			
Rental RMBS	-92%	0.8			
Agency Investor RMBS	-98%	0.3	BSL CLO	-29%	40
Seasoned CRT RMBS	-100%	0	MM CLO	120%	11

Source: ABS: Citi Research Viewpoint: ABS Weekly, Non-Agency RMBS J.P. Morgan 2023 RMBS Credit Midyear Outlook, CMBS: DB Research: CMBS 2023 Midyear Outlook: Tiers for Fears, Agency RMBS: Recursion, CLO: DB Research CLO Weekly: Nearing the Mid-way Point

Credit Risk Spreads by Product



March 17 spreads reflect market response to turmoil around SVB, Signature Bank and Credit Suisse.
Source: DB Research Securitization arket Databank