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SFA Research Corner

Credit Card and Auto ABS—Mostly Ready for Economic Challenges

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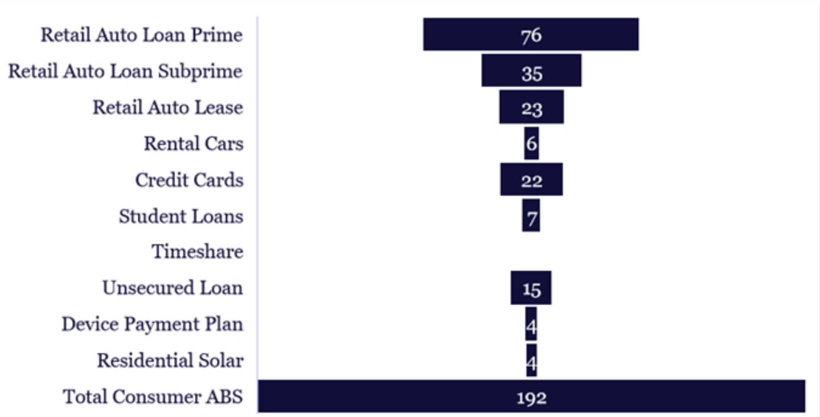
Credit Card and Auto ABS—Mostly Ready for Economic Challenges

In 2023, the structured finance market financed $192 billion in non-real estate consumer loans, with almost three-quarters of that directed towards auto-related securitizations. In 2024, Deutsche Bank Research reports a promising beginning for the sector. During the first three weeks of 2024, new ABS deals totaling over $21 billion were issued, with $18 billion, or 82%, attributed to consumer-related transactions. Out of the 27 ABS deals introduced 15 were upsized, and 10 of those deals were supported by auto loans.

Investor interest in consumer ABS remains strong bolstered by robust structures that have been designed to withstand the softer economic conditions expected in 2024, even as some ABS trusts display weaker performance, particularly in newer collateral

For instance, Auto ABS benefits from a sequential pay structure and non-declining reserve accounts. These features result in credit support that grows over the life of a transaction, enabling deals to endure weaker economic conditions as auto losses rise in tandem with higher unemployment levels. The net loss rate for prime auto ABS reached 0.67% by November 2023, 22 bps above its level one year ago. The net loss rate for subprime auto ABS came in at 8.86%, 49 bp above its 2022 level.

ABS Backed by Non-Real Estate Consumer Credit (2023 Total --$192 billion)



Source: Finsight.

	Net Loss Rates %		60+ Delinquencies %	
	Nov-22	Nov-23	Nov-22	Nov-23
Prime Auto ABS	0.45	0.67	0.51	0.60
Subprime Auto ABS	8.37	8.86	5.76	6.06

Source: S&P Global Ratings, U.S. Auto Loan ABS Tracker: November 2023 Performance.

Credit card ABS performance is upheld by pools of loans that are typically well-seasoned and of higher credit quality compared to the broader credit card universe. These ABS structures benefit from elevated excess spread levels and maintain minimum credit enhancement requirements that often exceed multiples of losses experienced by the pools. Excess spread is considered the first line of defense against losses and is the difference between the coupon paid on the bonds and the interest paid on the loans. If excess spread falls below a predetermined level over a 3-month period early bondholder payout occurs, protecting bondholders from widespread pool deterioration. According to Fitch's Credit Card Index, which was established 25 years ago and is currently monitoring $130 billion of prime credit card loans and $28 billion of retail card loans, prime and retail credit card charge-offs and delinquencies showed signs of weakening in 2023 but remained resilient compared to pre-pandemic performance. As unemployment rises, there is an expected decline in credit card performance due to the close correlation between the two.

	Charge-off Index %		60+ Delinquency Index %	
	Dec-19	Dec-23	Dec-19	Dec-23
Prime Bankcard ABS	2.94	2.49	1.10	1.00
Retail Card ABS	6.94	6.24	2.62	2.72

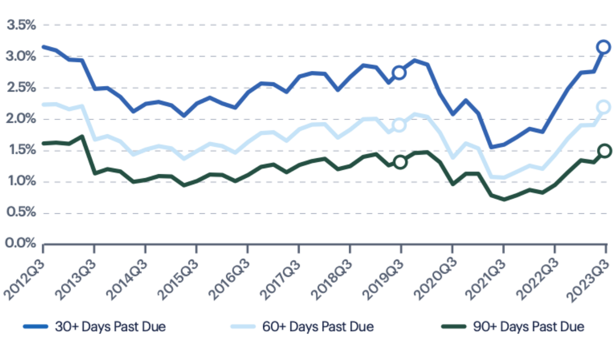
Source: Fitch Ratings, ABS Credit Card Indices

Consumer Credit Responds to Headwinds

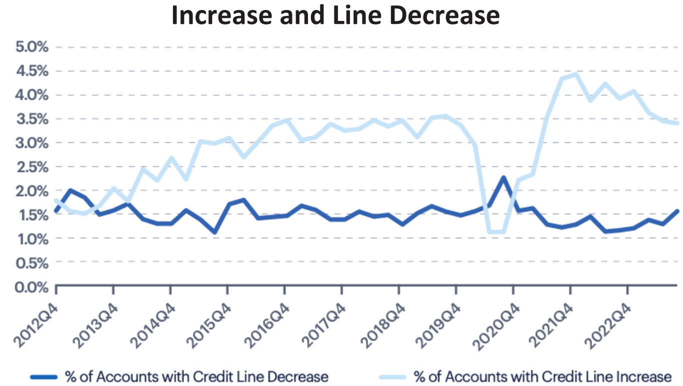
In the face of challenges like elevated interest rates and persistently high consumer prices, consumers showed resilience in 2023. Howev-er, the number of borrowers that fell behind in their debt payments continued to increase. Particularly noteworthy was the substantial surge in credit cards entering serious delinquency, defined as 90+ days delinquent. This category experienced a significant increase of 184 basis points, reaching 9.43%, signifying a 24% year-over-year rise, according to the New York Federal Reserve's [Quarterly Report on Household Debt and Credit].

A new [study] from the Federal Reserve Bank of Philadelphia shows that delinquency rates for credit cards issued by large banks, specifical-ly, now exceed pre-pandemic levels, approaching series highs last seen in 2012. Banks are responding to this deterioration by granting fewer credit line increases and increasing the frequency of credit line reductions. Additionally, total card revolving balances have been increasing, outpacing overall balance growth. The share of borrowers paying an account in full has declined, according to the study, alt-hough remains high compared to pre-pandemic levels.

Credit Card: 30+, 60+, and 90+ Days Past Due Rates: Balances-Based



Share of Credit Card Accounts with Line Increase and Line Decrease



Source: Insights: Large Bank Credit Card and Mortgage Data FRY-14M data through Q3 2023, Federal Reserve Bank of Philadelphia.