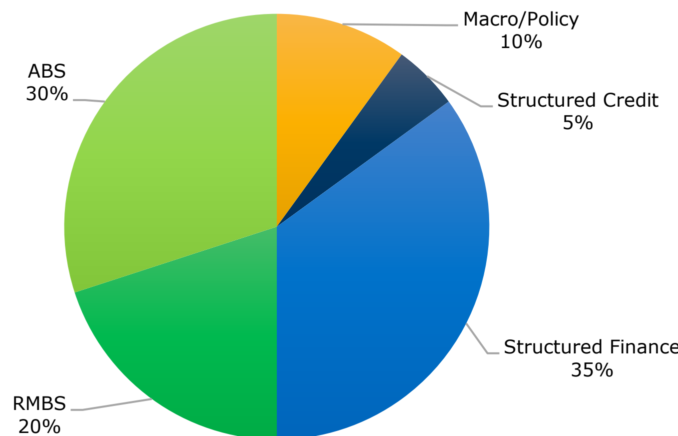
SFVegas 2025 Conference: Day 2 Recap

Tuesday began with a plenary session focused on the macropolitical environment and political headwinds that could affect markets in 2025. The plenary session was followed by two fireside chats, one with Jim VandeHei (co-founder and CEO of Axios, co-founder and former CEO of Politico) and the other with Tyra Banks (entrepreneur, supermodel, and Emmy-winning TV producer). The afternoon was once again allocated to several breakout panel sessions focused on the ABS, CLO, CMBS, and RMBS markets. A breakdown appears below, followed by highlights from select panel sessions. Please also see yesterday's Day 1 Recap.

Figure 1: Breakdown of Day 2 Conference Panels



Sources: KBRA, SFA

Aircraft ABS

Aviation ABS issuance reached $5.4 billion in 2024, with most of that occurring in 2H. Panelists noted that last year's issuance primarily involved assets centered around young, new technology narrowbody aircraft. When asked what had reopened the market, panelists cited a combination of factors, including favorable pool composition, lower interest rates, higher lease rates, and increased aircraft values—collectively creating favorable economics for issuers.

When discussing the rise in aircraft values, panelists attributed this to the post-pandemic surge in travel, which has surpassed 2019 levels in many regions. As a result, aircraft values in ABS pools have also rebounded to levels exceeding those seen in 2019. When asked whether this might be a bubble, one panelist responded confidently, suggesting that these elevated valuations are likely to persist throughout the decade, driven largely by supply-chain issues at original equipment manufacturers (OEM). The need for aviation ABS is only increasing, given the current global fleet of around 24,000 aircraft—valued at approximately $700 billion—is expected to double in size over the next 20 years.

Panelists were highly optimistic about aviation ABS issuance in 2025, predicting it will surpass 2024 levels. They forecast the entry of first-time issuers into the market, as well as the reappearance of C-class and E-note issuances.

Auto ABS

The panel explored 2024 performance trends and expectations for 2025, highlighting key developments in prime and subprime auto loan ABS credit segments. While prime borrowers maintained credit stability, the subprime market weakened significantly, leading to higher delinquencies and losses. Panelists pointed out how 2022-23 vintage deals underperformed compared to prior years, particularly in subprime ABS as deep subprime issuers expanded originations. Looking ahead to 2025, panelists expressed a neutral outlook, citing used vehicle price stability and tightened underwriting standards as key drivers of improved performance. The discussion also covered longer-dated auto loans, which are gaining popularity to support affordability but come with slower equity buildup and increased credit risk.

Investor sentiment remains mixed, with some panelists arguing that spreads are still attractive relative to corporates, while others believe risk-adjusted returns are diminishing. Macroeconomic uncertainty, including the impact of a new administration and potential tariffs on foreign vehicles, added volatility to the outlook. The potential for tariffs to increase

used vehicle demand and improve recoveries was seen as a double-edged sword, as inflationary pressures could still impact consumer affordability. The rise of electric vehicle (EV)-backed ABS transactions introduced new risk factors, particularly around residual value fluctuations and changing tax incentives. Overall, panelists emphasized the importance of tight underwriting, macroeconomic monitoring, and structured risk assessments in navigating the evolving auto ABS market.

CRT Market

Panelists representing the government-sponsored enterprises (GSE), investors, and other segments of the securitization market discussed current trends in the credit risk transfer (CRT) market, highlighting issuance expectations for 2025, sector performance to date, structural improvements, and the relative value considerations made by investors. Fannie Mae and Freddie Mac project CRT issuance to be generally consistent with the prior year, with each expecting to issue $4 billion to $5 billion in 2025. CRT spreads have tightened in line with the broader RMBS market, with overall RMBS issuance projected to increase approximately 10%.

Borrower delinquencies remain relatively low, and losses have been minimal. However, more recent vintages, including 2022 and 2023, exhibit slightly riskier credit profiles. While concerns persist around rising property taxes and insurance costs, borrower performance remains stable. Loss severities remain low, as borrowers in distress are either able to sell their properties to pay off outstanding balances or they receive relief through loan modification. Nationally, home price appreciation is expected to moderate to around 2%, although regional differences remain, as coastal markets are expected to appreciate further due to housing supply constraints and sustained demand. One panelist suggested that national home prices were at least 10% overvalued, with another believing that this estimation was too low, especially when considering the current interest rate environment, affordability concerns, and other macroeconomic factors. However, they each conceded that the current lack of housing supply has more than offset any potential market imbalances in terms of overall demand, resulting in resilient home price levels.

Both Fannie Mae and Freddie Mac have been focused on cost efficiency in their risk transfer programs, utilizing both capital markets and reinsurance solutions. The introduction of the Class A-1 tranche to the CRT capital structure has helped the GSEs improve cost efficiency with respect to the Enterprise Regulatory Capital Framework (ERCF), while also allowing investors to participate in highly-rated classes with predictable and stable bond duration. Each entity also continues to make use of their bond tender program to further reduce program costs.

CRT remains attractive even with tighter spreads, with investors deploying strategies across the capital structure. Nevertheless, investors remain focused on relative value, assessing CRT versus other asset class offerings such as non-qualified mortgage (NQM), closed-end seconds (CES), and home equity line of credit (HELOC). Some panelists noted that NQM assets with similar ratings to certain CRT tranches may offer better relative value, while residential transition loans (RTL) present limited extension risk and could represent an alternative investment option. Seasoned credit is also seen as a compelling opportunity.

Over the past year, the securitization market has been highly reactive to the Federal Reserve’s guidance and policy shifts, yet mortgage rates are expected to decline only modestly by year-end. Despite some macroeconomic uncertainty, the CRT market remains generally well supported, with stable credit performance and sustained investor interest. Fannie Mae and Freddie Mac continue to drive participation in the CRT space with consistency in their bond offerings and structural features designed to cater to investor preferences. They remain committed to their CRT programs as a core risk management tool.

Whole Business Securitization

The whole business securitization (WBS) market recorded its second-highest issuance year in 2024, with approximately $12.3 billion issued—just below the 2021 peak of about $14.5 billion. Despite the sizable issuance, first-time issuers were few, as activity was primarily driven by refinancing and tapping into existing master trusts.

Panelists noted that only a limited number of issuers are expected to seek refinancing in 2025. Typically, issuers access the market roughly one year before the anticipated repayment date (ARD). However, the current rate environment may delay refinancing, pushing it closer to the ARD, given that earlier issuances benefited from a lower cost of capital.

The panel provided a historical overview of WBS, tracing its origins to the pre-global financial crisis (GFC) era when most transactions were backed by monoline insurers and predominantly secured by franchise royalty payments. Today, WBS collateral has expanded to include profits from company-operated locations and other cash flows, requiring additional analysis.

Investors favor WBS paper due to its longer duration and the potential for a spread pickup compared to other asset classes. Panelists also highlighted the portability of the capital structure, noting recent examples—such as transactions involving Sonic and Jersey Mike's—that underscore the benefits of transferable ownership structures.

Considering recent transitions in manager functions within existing WBS transactions, panelists discussed the critical role of the backup manager. Their responsibilities include overseeing various accounts, ensuring robust reporting, and negotiating key contracts when necessary (for further information, see Spotlight on WBS Back-Up Managers).

GSE Reform Again?

The discussion began with a history of the GSE conservatorship and past reform efforts. Various legislative proposals had been suggested, including explicit GSE backing for Fannie Mae and Freddie Mac MBS, as well as the privatization of the entities. Instead, conservatorship has endured for over a decade and a half, with ongoing tension between the government's role in supporting a stable housing market and the goal of reducing taxpayer risk.

The early actions of the current administration were perceived as raising concerns about aggressive "Department of Government Efficiency (DOGE)-style" reform efforts that could destabilize the market, rather than adopting a more thoughtful approach that considers the critical role of the U.S. housing market. Privatization could negatively impact the liquidity of the to-be-announced (TBA) market as participants gravitate toward one entity, most likely Fannie Mae, and undo benefits of unified mortgage-backed securities (UMBS) issuance.

Panelists discussed the need for a thoughtful administrative-led approach to GSE reform. The panelists also expressed a need for investor education on the importance of long-term market liquidity, instead of a narrow focus on short-term equity gains that could arise from privatization. GSE reform is not expected to take place during the first half of the Trump administration's term, providing a valuable opportunity to educate stakeholders.

Opportunities in Corporate Esoteric ABS

The panel discussed the esoteric ABS market, which accounts for 30%-45% of the overall ABS sector. Panelists highlighted its appeal to investors looking for diversification, as it provides exposure beyond consumer credit risk and longer durations, in addition to higher yields compared to corporate bonds. However, investors must carefully evaluate collateral quality, valuations, the servicer, and deal structures.

The panel explored specific esoteric ABS sectors in detail, including small business, triple net lease, data centers, and music royalties. Looking ahead, panelists expect a strong market with lower rate volatility but caution against potential risks from inflation, geopolitical events, and policy changes. Ultimately, panelists emphasized that the continued growth of the esoteric ABS market depends on investors' willingness to understand the risks and underlying assets.

Solar, Energy Efficiency, and Behind-the-Meter ABS

The panel explored the rapid expansion of solar ABS markets, with 2024 setting a new record for issuance volume, up 20% from 2023. New issuers like EnFin and EverBright entered the space, while the panel also mentioned KBRA rating the largest solar ABS tranche at $977.5 million. 2025 is already outpacing all of 2016 in issuance volume, signaling continued demand for these structures. Panelists did also mention that higher interest rates have eroded the investment tax credit (ITC) benefit, pushing more consumers toward solar leasing instead of loans, as leases offer fixed rates, maintenance services, and transferability when selling a home.

Legal and structural protections remain a focus for lenders, with panelists emphasizing the need for strong servicing transitions and sponsor stability in deal ratings. KBRA's Kenneth Martens highlighted sponsor financial strength, operational controls, and securitization experience as key rating considerations, especially as new market participants emerge. He also noted that while changes to the ITC could impact how solar loans are structured and marketed, its removal is not expected to affect the performance of already-installed solar ABS deals. The panel also discussed other policy risks under the new administration, including tariffs, which remain a wildcard as their effects on solar loan performance remain unclear.

Residential solar adoption is projected to grow from 5%-6% of U.S. homes to 10%-15% in the coming years, with new issuers incorporating energy efficiency services beyond just solar panels. Panelists concluded that the solar ABS market is positioned for continued growth, supported by strong borrower demographics and evolving deal structures.

Developments in Equipment ABS

The panel, which featured KBRA Senior Director Kenneth Martens, examined the continued expansion of this growing asset class, which now accounts for 10%-20% of total ABS issuance. Small- and medium-ticket leases have demonstrated resilience, particularly in technology-related sectors, while transportation equipment ABS continues to see stable demand. Private credit firms are filling the gap left by banks, which have pulled back from equipment lending—particularly in large-ticket financing. New entrants have focused on originating used equipment-backed deals with highly leveraged obligors, increasing risk considerations.

Trucking equipment-backed ABS has faced the most pressure within the asset type, with 2024 performance showing notable weakness. In addition, OEMs have adjusted inventory management strategies, which may lead to smaller deal sizes or longer issuance lags. Investor demand remains strong, as equipment ABS provides exposure to the commercial economy, while fixed rate amortizing structures with excess spread present attractive investment opportunities. However, tariffs and elevated interest rates pose risks, as higher equipment costs may strain borrower performance. Cross-border trucking from Canada could face additional weakening due to regulatory shifts, adding further market uncertainty. Liquidity was another key topic, with panelists segmenting the space into three tiers—established sponsors on top enjoying strong trading activity, while new sponsors remain highly illiquid and attract only specific investors. Panelists concluded that while the sector is experiencing rapid growth, the ability to absorb new issuance volume will depend on issuer quality, deal structures, and broader macroeconomic stability.

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