

# U.S. Structured Finance Chart Book: June 2024

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# Highlights | ABS Frontiers: Looming Basel 3.1 Rules Could Incentivize More Bank Securitization

- The upcoming implementation of Basel 3.1 by regulators around the world could affect banks' use of securitization for both capital relief and funding.
- Higher capital charges could incentivize more use of securitization to manage risk-weighted assets through so-called significant risk transfer (SRT) transactions.
- However, such transactions will likely become more challenging and costly than under current rules, given that Basel 3.1 also changes capital charges on the resulting securitization exposures.
- Relative shifts in the regulatory treatment of assets pre- and post-securitization could also affect transactions issued for funding purposes, even if capital charges are not banks' primary consideration.
- All these effects will strongly depend on the underlying asset type and the final implementation details, some of which remain uncertain.

## Typical asset risk weights



Based on typical current IRBA risk weights for banks in the European Union. Applies output floor effect to credit risk charges independent of other risk categories. IRBA—Internal ratings-based approach. Source: S&P Global Ratings.

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# Highlights | Lower Margin For Error On Debt Service Coverage Raises U.S. CMBS Performance Risk

- Over the past 18 months, S&P Global Ratings has observed more loans structured with debt service coverage (DSC) near 1.0x, especially those backing single-borrower commercial mortgage-backed securities (CMBS) deals; these loans appear to be banking on rising net cash flow (NCF) and declining interest rates to increase DSC levels.
- Revenue growth projections are slowing for most property types. At the same time, interest rates, while projected to decline somewhat from current levels, are likely to remain high for a while-- certainly higher than the low figures prevalent in 2019-2021.
- Loans with DSCs that dropped below 1.0x during their terms had significantly higher default rates than those that maintained more robust coverage levels.
- In certain cases, we've declined to provide preliminary rating feedback on single-borrower transactions when DSCs are very low and prospects for significant NCF growth are limited, thus raising refinancing concerns.

## Default rates by property type for loans with DSCs below 1.0x

	Lodging	Office	Multifamily	Industrial	Retail	Total
Total loans below 1.0x DSC (no.)	5,605	8,325	13,402	2,940	11,859	<b>42,131</b>
Total defaulted loans below 1.0x DSC (no.)	1,961	2,435	3,167	604	3,285	<b>11,452</b>
Total loans (no.)	9,054	20,620	36,329	9,252	37,577	<b>112,832</b>
Percentage of total loans that fell below 1.0x DSC (%)	61.9	40.4	36.9	31.8	31.6	<b>37.3</b>
Default rate for loans that fell below 1.0x DSC (%)	35	29.2	23.6	20.5	27.7	<b>27.2</b>
Default rate for loans that didn't fall below 1.0x (%)	10.9	7.4	4.9	5.5	6.1	<b>6.1</b>

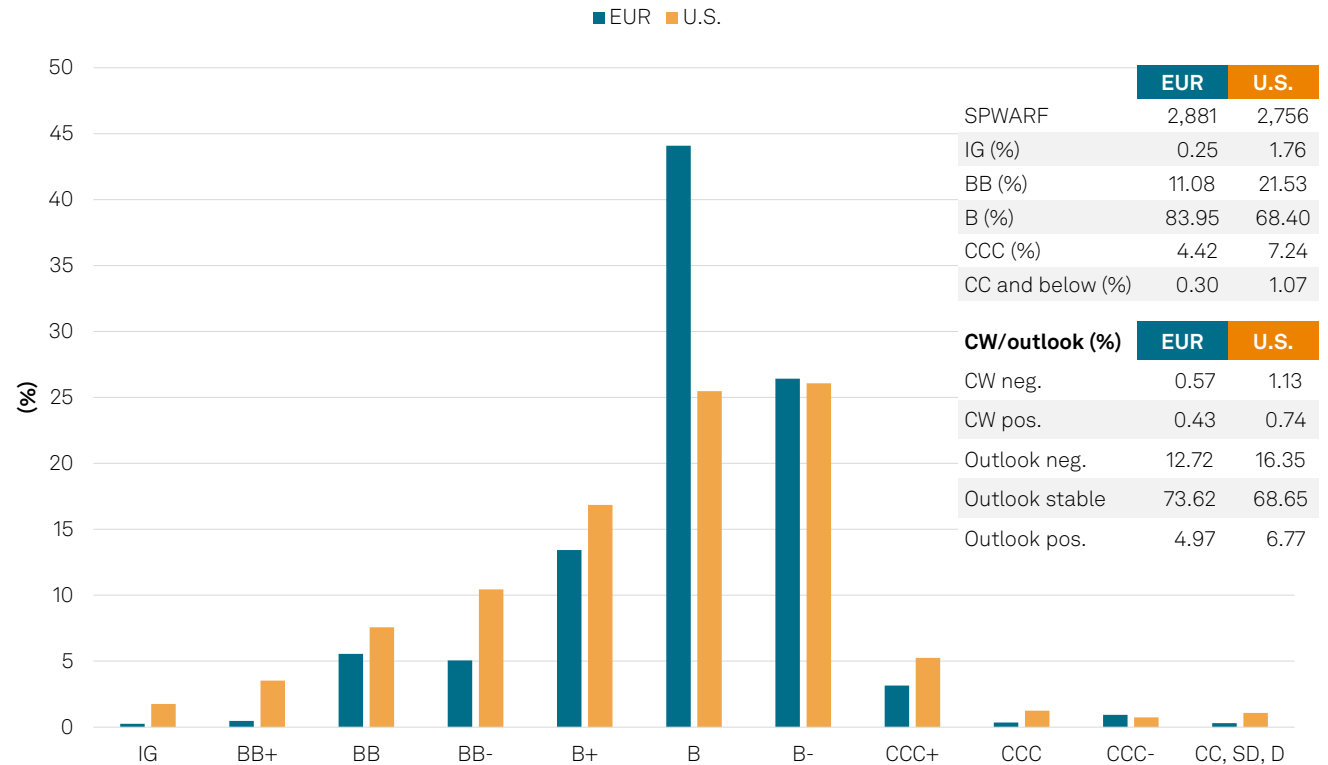
DSC--Debt service coverage. Sources: S&P Global Ratings and Trepp.

[Access Article](#) >

# Highlights | U.S. And European BSL CLOs: A Comparative Overview

- European broadly syndicated loan (BSL) collateralized loan obligation (CLO) notes offer more credit enhancement than U.S. BSL CLO notes, but European CLO portfolios have a higher S&P Global Ratings weighted average rating factor (SPWARF). In both regions, obligor diversity has improved, but U.S. BSL CLO portfolios continue to exhibit greater obligor and industry diversity.
- Liability spreads for both EUR and U.S. BSL CLOs have fallen significantly from an all-time high in Q4 2022 but are not back to pre-pandemic levels. The spread differential between the two regions has tightened.
- Since early March, several widely held BSL CLO obligors have seen downgrades (e.g., subsidiaries of Altice Europe N.V. and Altice USA Inc.), and the average ‘CCC’ bucket in both regions has increased, with U.S. BSL CLOs having higher exposure to ‘CCC’ and nonperforming assets.
- Debt maturities have been extended in both Europe and the U.S., with few assets maturing in 2024 and 2025, although most 2024 maturities comprise issuers with significantly lower credit quality. Maturities in both regions are concentrated in 2028, with EUR BSL CLOs facing slightly more refinancing pressure in 2026.
- Both EUR and U.S. BSL CLOs are adapting to similar market challenges despite regional differences, and the documentation and structural features of the two markets continue to gradually align.

CLO asset rating distribution\*



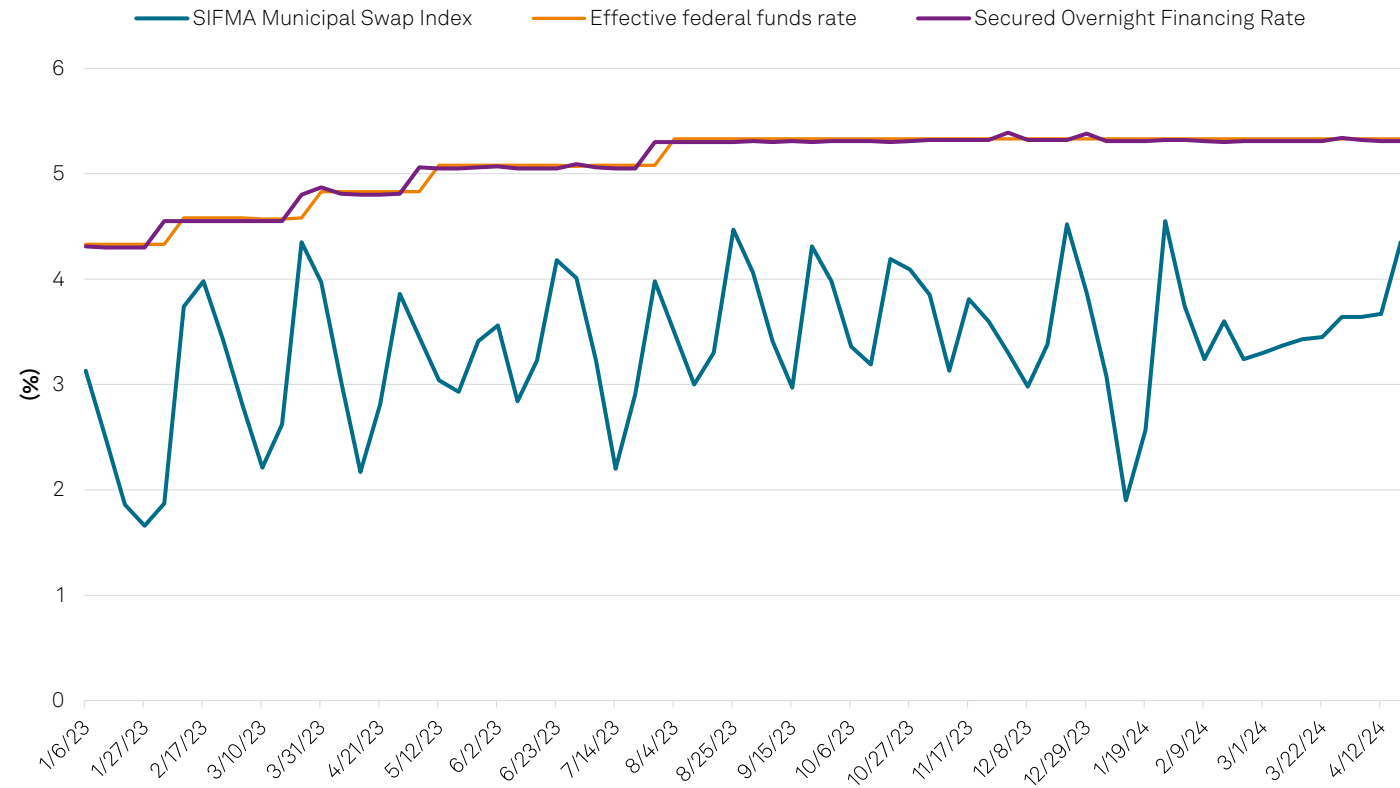
\*Data as of May 1, 2024. BSL--Broadly syndicated loan. SPWARF--S&P Global Ratings weighted average rating factor. IG--Investment grade. CW--CreditWatch. SD--Selective default. Source: S&P Global Ratings.

[Access Article](#) >

# Highlights | First-Quarter 2024 Tender Option Bond Update: Issuance Plunges Amid High Financing Costs

- Tender option bond (TOB) trust issuance was muted in first-quarter 2024, as fund-sponsored issuance declined due to elevated financing costs.
- TOB trusts backed by unrated housing bonds accounted for 60% of first-quarter 2024 issuance, with bank sponsors pursuing high-yield opportunities and expanding their low-income housing tax credit portfolios.
- Despite downgrades outpacing upgrades six to five, credit ratings across our rated TOB trust portfolio remain comfortably investment grade, with 78% above the 'A' category.
- Weekly volatility in the SIFMA Municipal Swap Index decreased significantly in March due to slowing remarketing.
- Average leverage for TOB trusts ticked up in first-quarter 2024 as funds took advantage of increased returns in the municipal bond market.

Tender option bond financing costs remain elevated



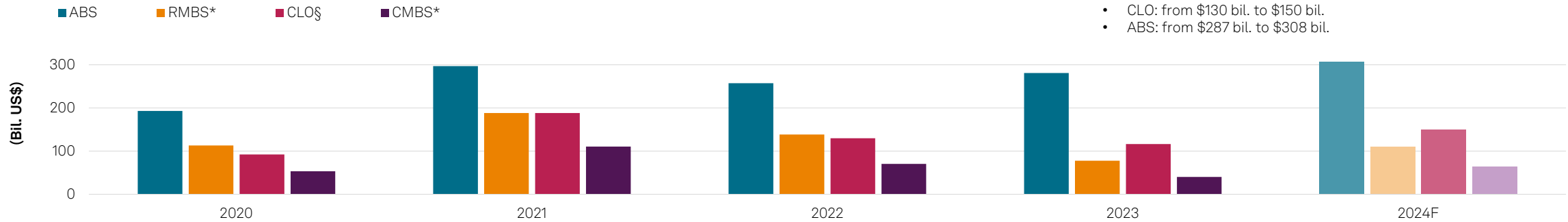
SIFMA--Securities Industry and Financial Markets Association. Source: Bloomberg and S&P Global Ratings.

[Access Article](#) >



# Market-Wide Structured Finance Issuance | CLO And CMBS Monthly New Issue Volumes Hit Year-To-Date Highs In May

## Annual new issuance

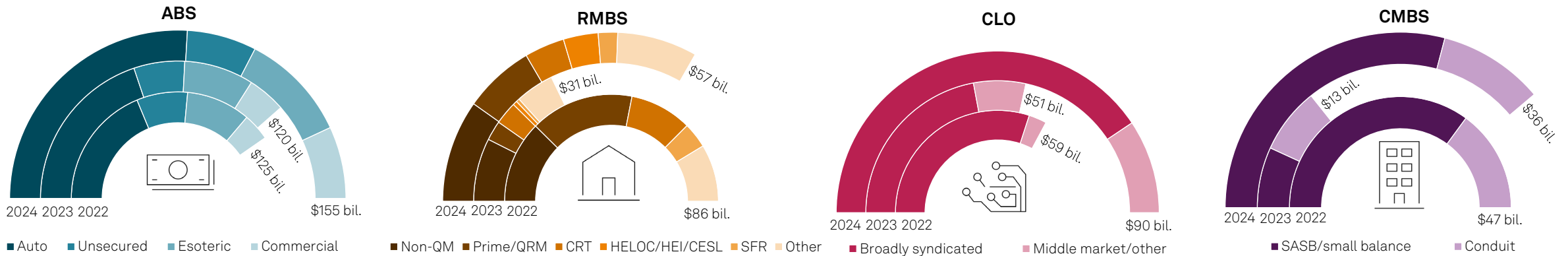


### Forecast Revisions

We increased our 2024 new issuance forecasts for the following sectors:

- Private label CMBS: from \$50 bil. to \$65 bil.
- CLO: from \$130 bil. to \$150 bil.
- ABS: from \$287 bil. to \$308 bil.

## New issuance through the end of May

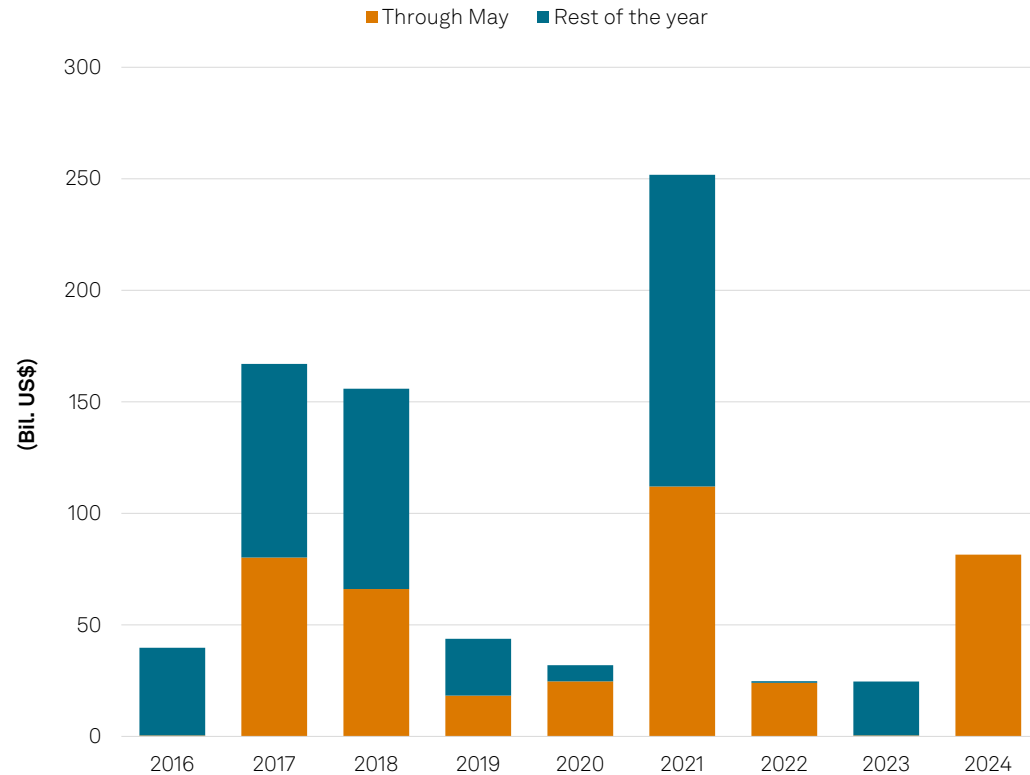


Issuance volumes are rounded. New issuance volumes exclude CRE CLO transactions. \*RMBS and CMBS issuance volumes exclude agency mortgage-backed securities. §CLO refinancing-reset volume is not considered new issuance. Non-QM—Non-qualified mortgage. QRM—Qualified residential mortgage. F—Forecast. CRT—Credit risk transfer. HELOC—Home equity line of credit. HEI—Home equity investment. CESL—Closed-end second lien. SFR—Single-family rental. SASB—Single asset single borrower. Sources: S&P Global Ratings, Bloomberg, and Green Street.



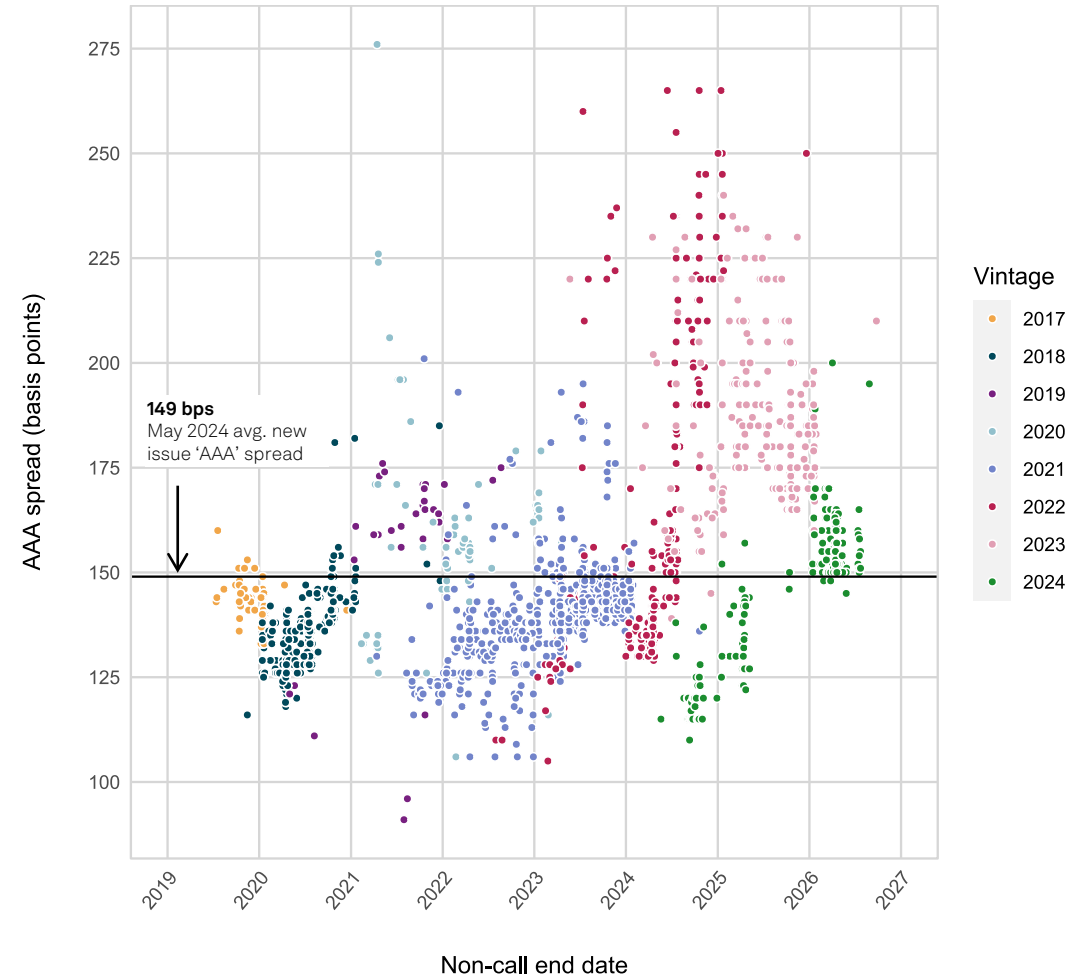
# CLO Refinancings And Resets

## CLO refinance/reset issuance volume



Source: Pitchbook LCD.

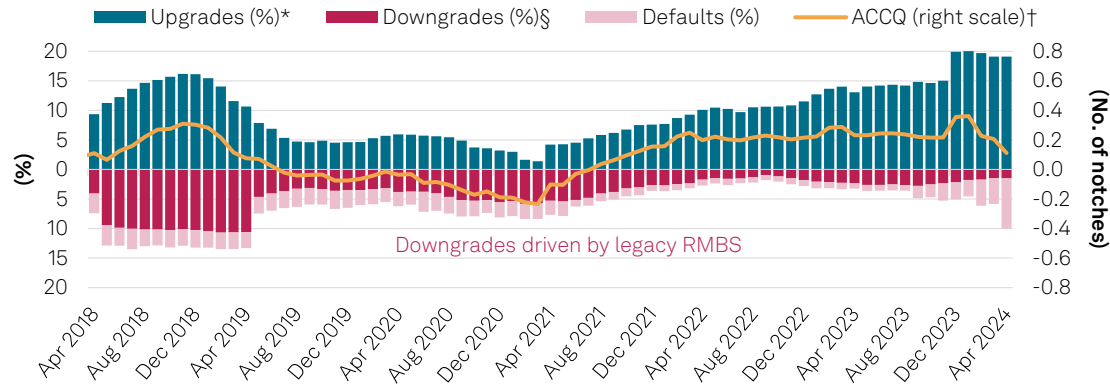
## Outstanding U.S. BSL CLO 'AAA' spreads and non-call period end dates by vintage



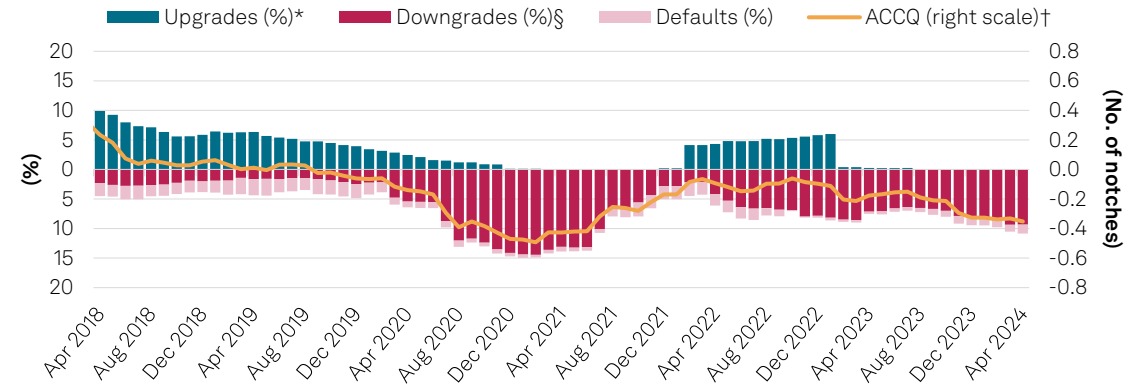
The spreads of reinvesting transactions and transactions within two years of their reinvestment period end date are plotted. The spreads of transactions that have already refinanced or reset previously are plotted. (Vintage is adjusted to reflect most recent iteration of the CLO.) Bps--Basis points. Sources: Pitchbook LCD and S&P Global Ratings.

# Ratings Performance | Average Change In Credit Quality By Sector

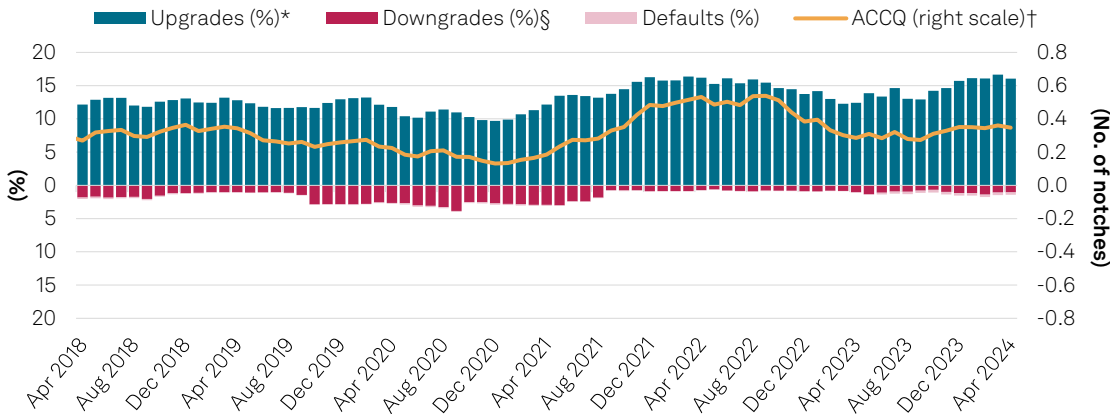
## RMBS



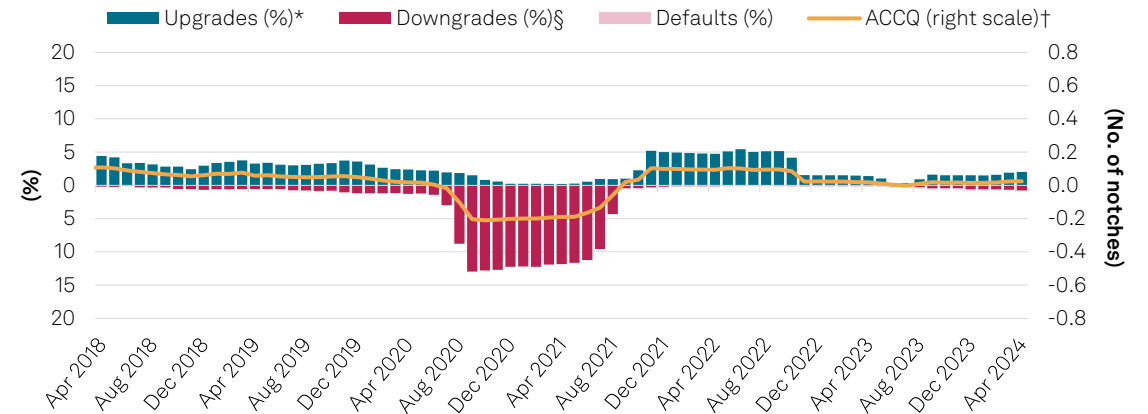
## CMBS



## ABS+



## CLO



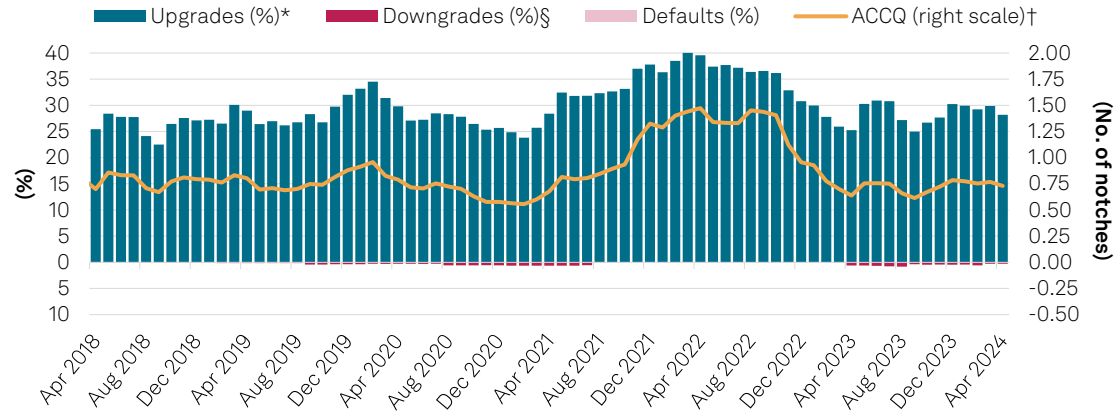
\*Total number of upgrades (downgrades, defaults) divided by the total number of outstanding ratings in the sector on a trailing 12-month basis. Securities whose ratings migrated to NR over the sample period are classified based on their rating prior to NR.  
 §The downgrade proportion excludes defaulted tranches. †The average number of notches by which ratings across all tranches in each sector changed on a trailing-12-month basis. ‡ABS includes ratings performance data from esoteric asset classes. ACCQ—Average change in credit quality. NR--Not rated. Source: S&P Global Ratings.



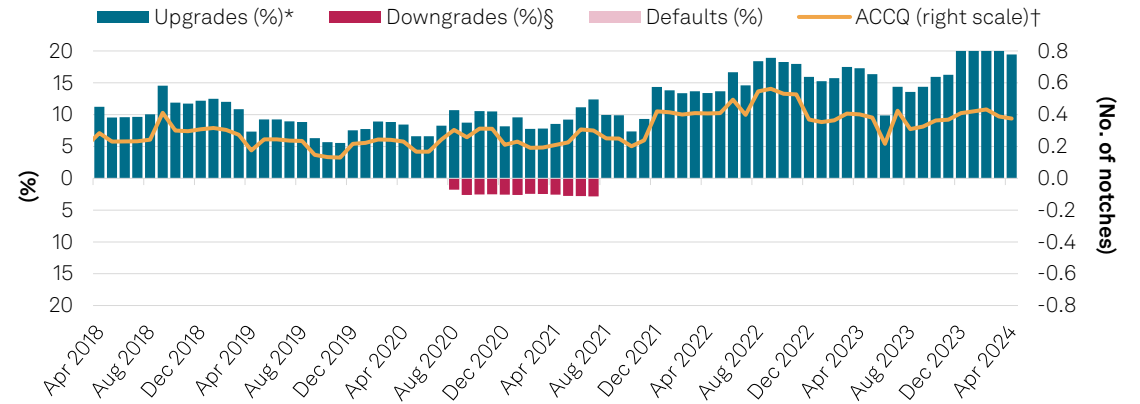


# Ratings Performance | Average Change In Credit Quality By ABS Sub-Sector

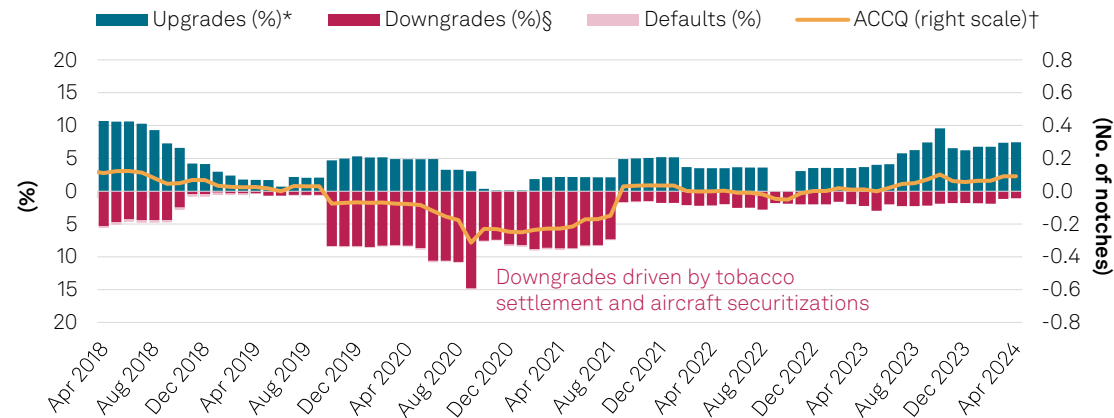
## Auto loan and lease ABS



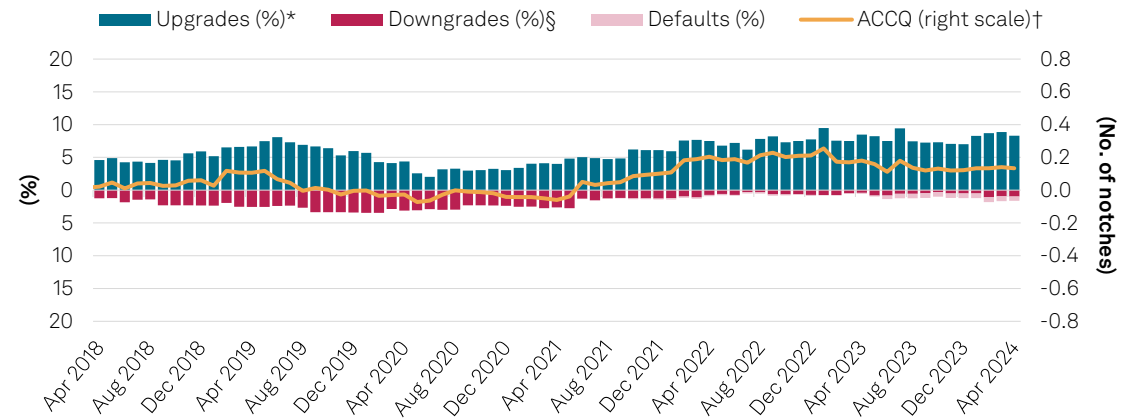
## Commercial ABS<sup>‡</sup>



## Esoteric ABS



## Student loan ABS



\*Total number of upgrades (downgrades, defaults) divided by the total number of outstanding ratings in the sector on a trailing 12-month basis. Securities whose ratings migrated to NR over the sample period are classified based on their rating prior to NR. §The downgrade proportion excludes defaulted tranches. †The average number of notches by which ratings across all tranches in each sector changed on a trailing-12-month basis. ‡Includes commercial equipment ABS and wholesale auto ABS (dealer floorplan). ACCQ--Average change in credit quality. NR--Not rated. Source: S&P Global Ratings.

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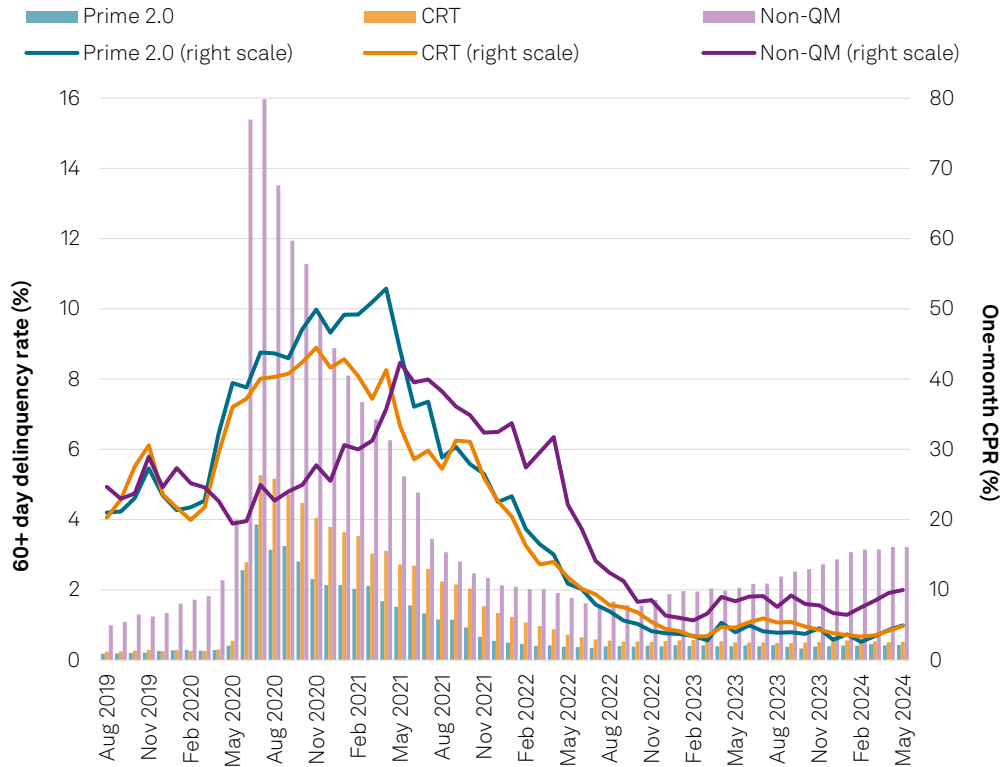


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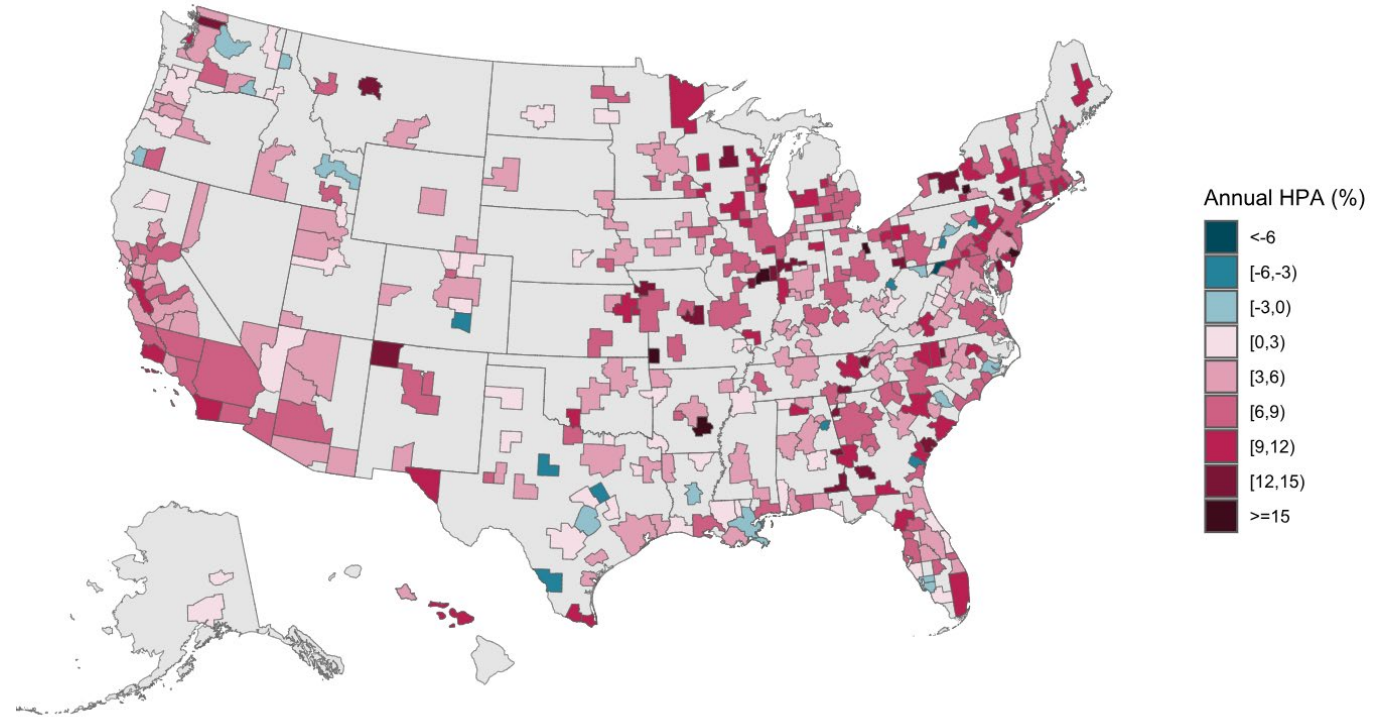
# RMBS | Collateral Performance And Regional HPA Update

## RMBS collateral performance\*



\*Data as of May 1, 2024. Based on loans backing RMBS transactions rated by S&P Global Ratings. RMBS--Residential mortgage-backed securities. CRT--Credit risk transfer. Non-QM--Non-qualified mortgage. CPR--Conditional prepayment rate. Source: S&P Global Ratings.

## First-quarter 2023 to first-quarter 2024 HPA by MSA



Ten MSAs depict combined data from two or more metropolitan divisions due to overlapping geographic locations. The HPA data from the metropolitan division with the highest core city population was chosen for each combined MSA. MSA--Metropolitan statistical area. HPA--Home price appreciation.

Source: Federal Housing Finance Agency All Transactions Home Price Index and S&P Global Ratings.

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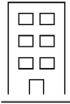
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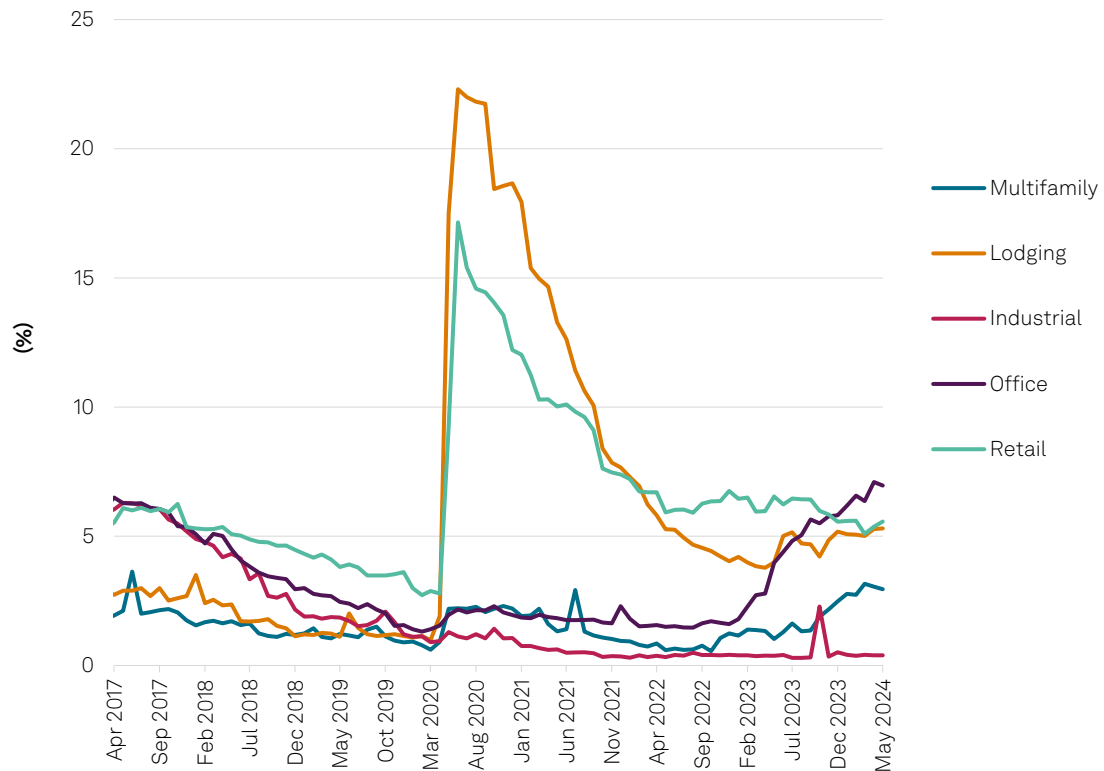
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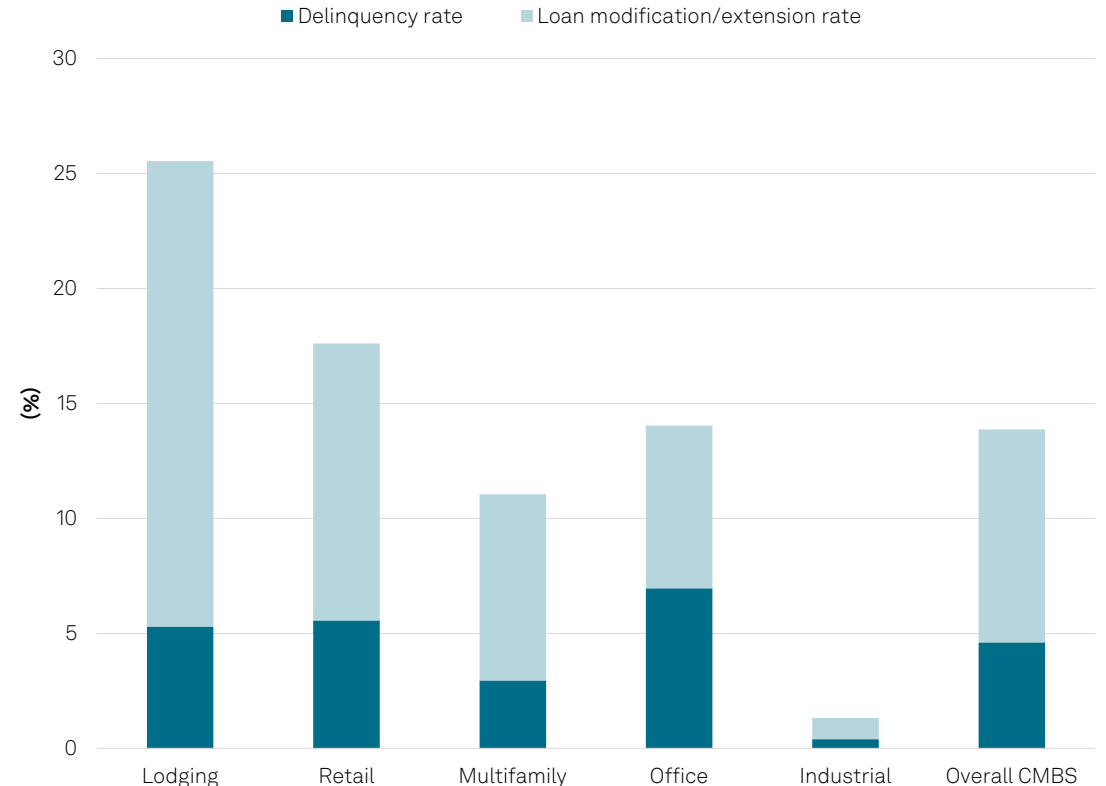
# CMBS | Delinquency And Loan Modification/Extension Rates

## Delinquency rate by property type



Based on loans backing CMBS transactions rated by S&P Global Ratings. CMBS--Commercial mortgage-backed securities. Source: S&P Global Ratings.

## Delinquency and modification/extension rate by property type\*



\*Data as of May 2024. Based on loans backing CMBS transactions rated by S&P Global Ratings. CMBS--Commercial mortgage-backed securities. Source: S&P Global Ratings.

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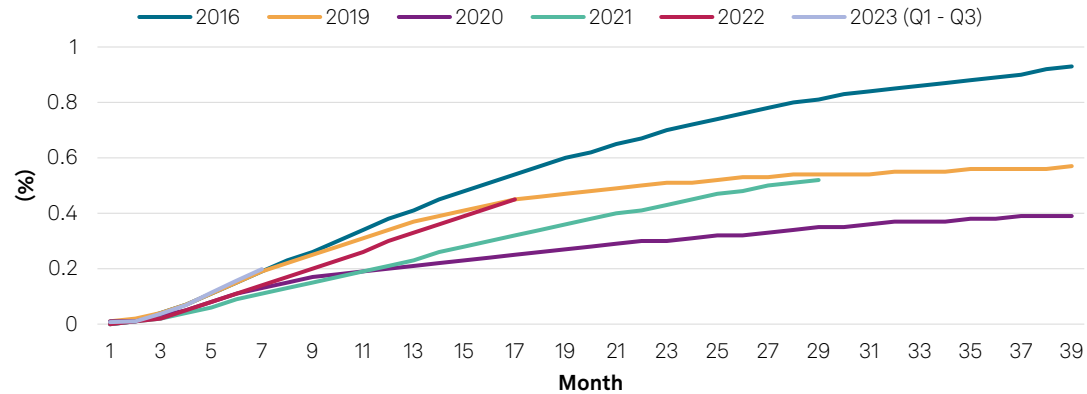
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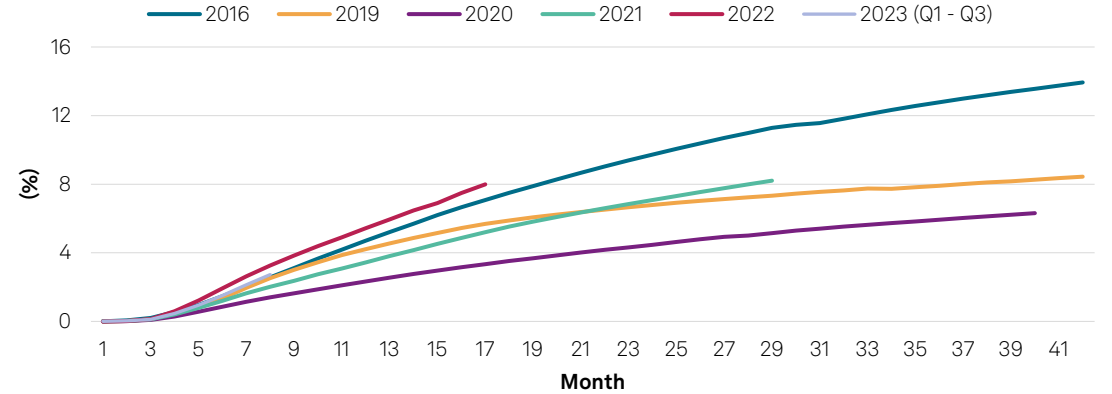


# ABS | Auto Loan ABS Performance By Vintage And Bankcard CCQI

Prime auto loan ABS: cumulative net loss rates by vintage

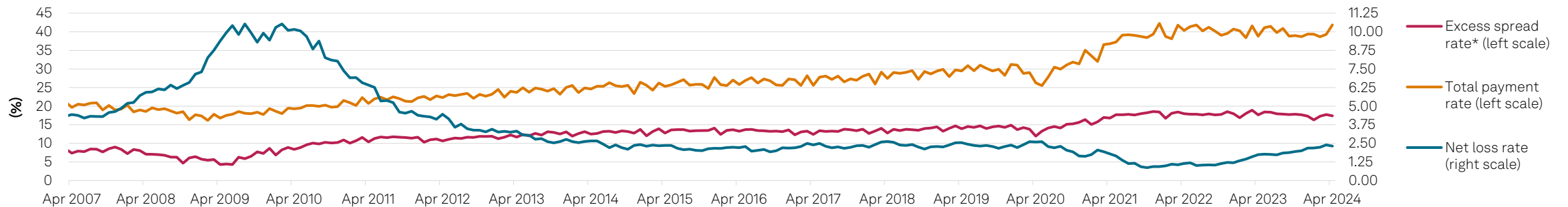


Subprime auto loan ABS: cumulative net loss rates by vintage\*



\*Transactions from America's Car-Mart, Credit Acceptance Corp., and DriveTime Automotive Group Inc. are excluded because they do not have the typical indirect auto loan business model. Based on S&P Global Ratings-rated auto loan ABS transactions. Source: S&P Global Ratings.

## Bankcard Credit Card Quality Index§



§Based on S&P Global Ratings-rated credit card ABS transactions. \*Yield minus base funding rate minus charge-off rate. Net loss rates and excess spread rates are annualized. Source: S&P Global Ratings.

# Esoteric ABS



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# Esoteric ABS | Overview Of Corporate Securitization Activity

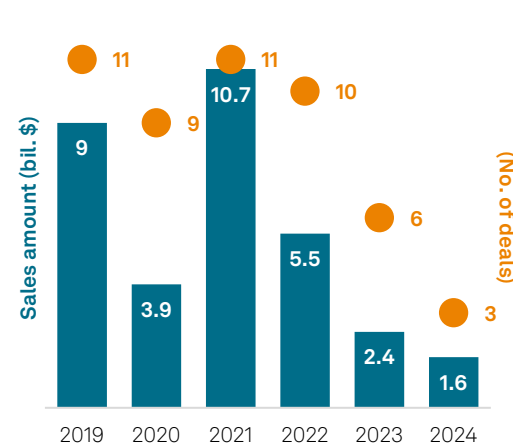
- As of April 5, 2024, we have rated three new transactions: \$1.33 billion in term debt and \$240 million in variable funding notes (VFNs).
- In 2023, all but one system posted positive sales growth year over year. Debt service coverage ratios (DSCRs) across all our investment grade-rated transactions were over 3.0x as of Dec. 31, 2023.
- We lowered our rating on TGIF Funding LLC to 'B-' on Feb. 5, 2024 ([press release](#)). Restaurant closures and royalty payment deferrals have reduced projected securitized net cash flow considerably. The only outstanding class of notes (2017-1 A-2 ) passed its anticipated repayment date (ARD) on April 30, 2024.
- We expect quick-service restaurants and casual dining to be weaker in 2024 following industry-level traffic declines in 2023, although moderating supply and labor price inflation may help restaurants to maintain margins.
- Issuers have been tapping VFNs to avoid locking in higher interest rates for the long term.
- Access our latest corporate securitization newsletter [here](#).

## S&P Global Ratings-rated corporate securitizations

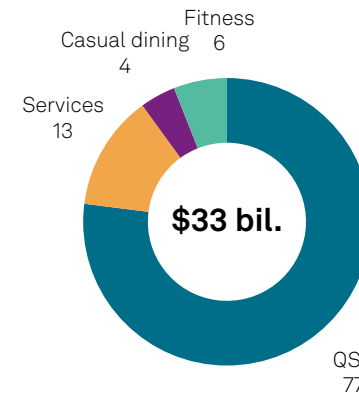
**63** Deals outstanding\*

**\$33.0 bil.** Rated outstanding bond balance

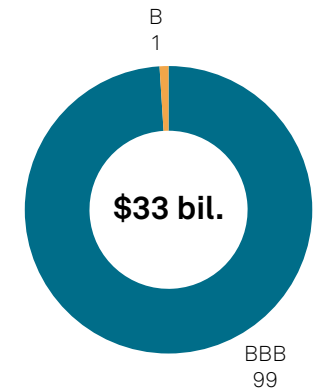
### New issuance\*



### Distribution by type (%)



### Rating distribution (%)



\*Data as of April 5, 2024. All amounts assume fully-drawn variable funding notes. QSR--Quick-service restaurants. Source: S&P Global Ratings.

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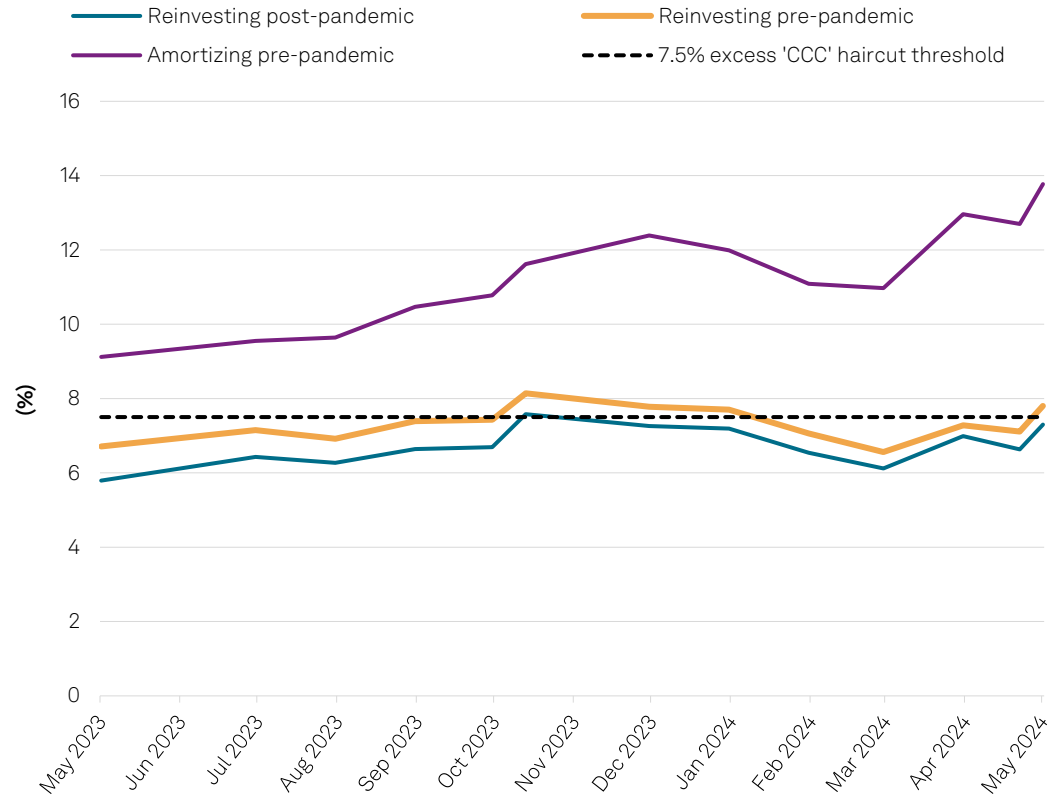
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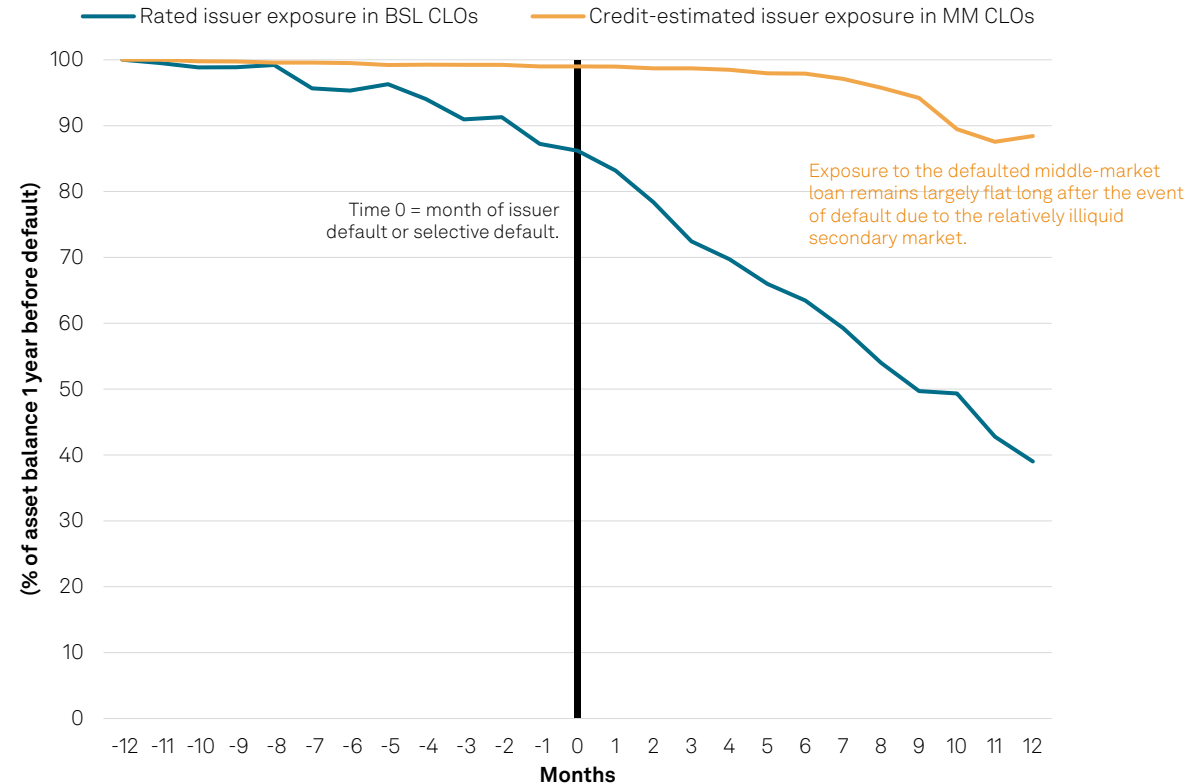
# CLO | 'CCC' Exposure And Default Exposure Analysis

## 'CCC' exposure across U.S. BSL CLO Index\*



\*Data are derived from transactions included in our U.S. BSL CLO Insights Index. Data for April and May 2024 are in progress and based on the most recent portfolio statistics available to us. BSL--Broadly-syndicated loan. Source: S&P Global Ratings.

## Median CLO exposure to defaults one year before and one year after\*



\*Analysis considers CLO exposure to about 100 BSL obligors and 200 MM obligors whose ratings (or credit estimates) were lowered to a nonperforming category between January 2020 and March 2023. BSL—Broadly syndicated loan. MM—Middle market. Source: S&P Global Ratings.

# ABCP/ Muni-Structured



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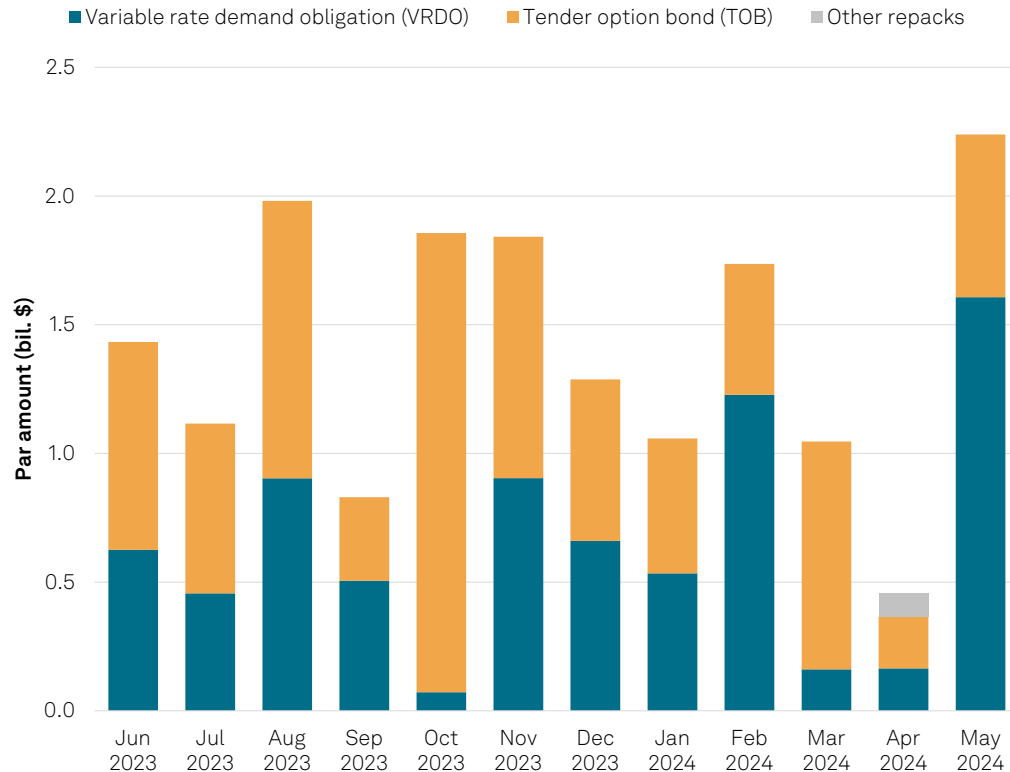
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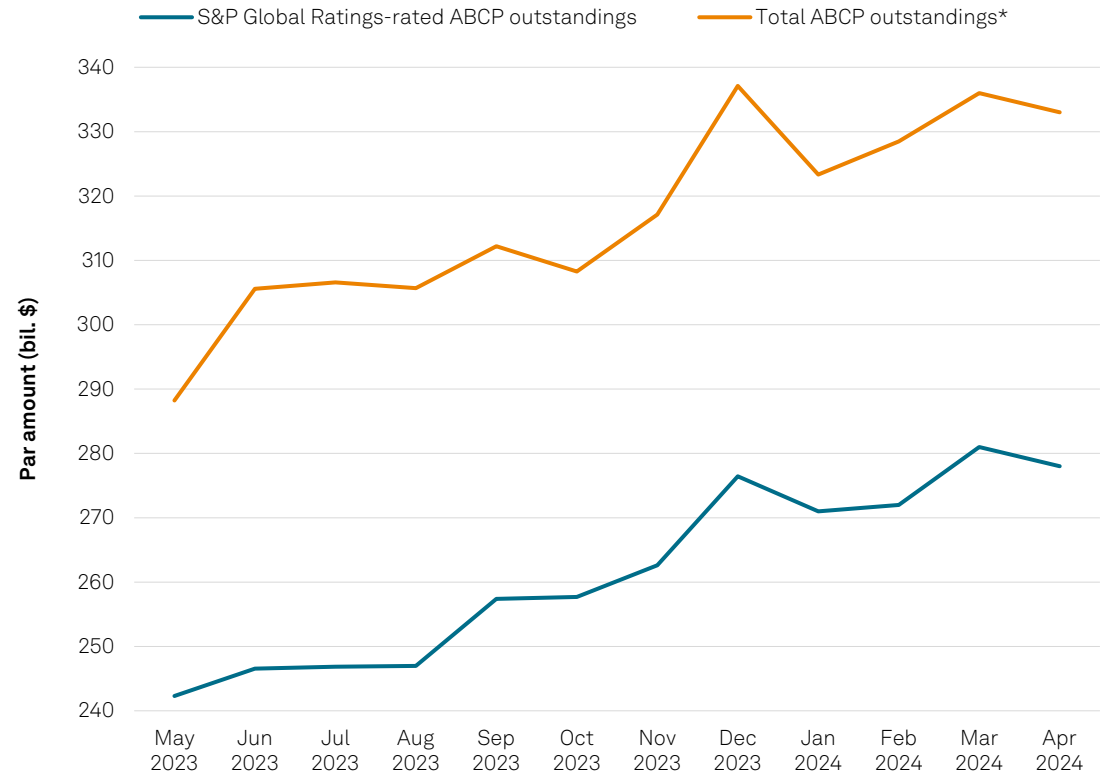
# ABCP Muni-Structured | New Issuance And Outstanding Amounts

## Healthcare and housing obligors drive a surge in VRDO issuance in 2024



VRDO--Variable rate demand obligation. TOB--Tender option bond. Source: S&P Global Ratings.

## New conduits and derivative-backed financing drives ABCP outstandings



\*Sourced from federalreserve.gov. ABCP--Asset-backed commercial paper. Source: S&P Global Ratings, U.S. Federal Reserve.



## Recent Research

Sector	Publications
RMBS	<a href="#">The Impact Of Rising Insurance Premiums On U.S. Housing</a>
CMBS	<a href="#">U.S. CMBS Overall Delinquency Rate Drops Seven Bps To 4.6% In May 2024; Updates Provided On Modification Rate By Property Type</a>
	<a href="#">CRE Debtholders Are Confronting Increasing Refinancing Risk And Charge-Offs In 2024; Outcomes Will Vary</a>
	<a href="#">Lower Margin For Error On Debt Service Coverage Raises U.S. CMBS Performance Risk</a>
ABS	<a href="#">U.S. Auto Loan ABS Tracker: April 2024 Performance</a>
	<a href="#">U.S. Credit Card Quality Index: April 2024 Performance</a>
Esoteric ABS	<a href="#">North America Triple-Net Lease ABS Newsletter</a>
	<a href="#">Structured Finance Esoteric Quarterly Roundup: Q2 2024</a>
CLO	<a href="#">CLO Insights U.S. BSL Index: Altice Tips Average BSL CLO 'CCC' Buckets Past 7.5% Threshold; Some CLOs Sell Exposures To Defaulted Obligors</a>
	<a href="#">U.S. BSL CLO And Leveraged Finance Quarterly: High Capital Costs Limit Broad-Based Improvement</a>
	<a href="#">Private Credit And Middle-Market CLO Quarterly: Not A Sunset, Just An Eclipse</a>
ABCP/Muni-Structured	<a href="#">Your Three Minutes In U.S. VRDOs: Regional Bank Exposure</a>

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