

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

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September 13, 2024

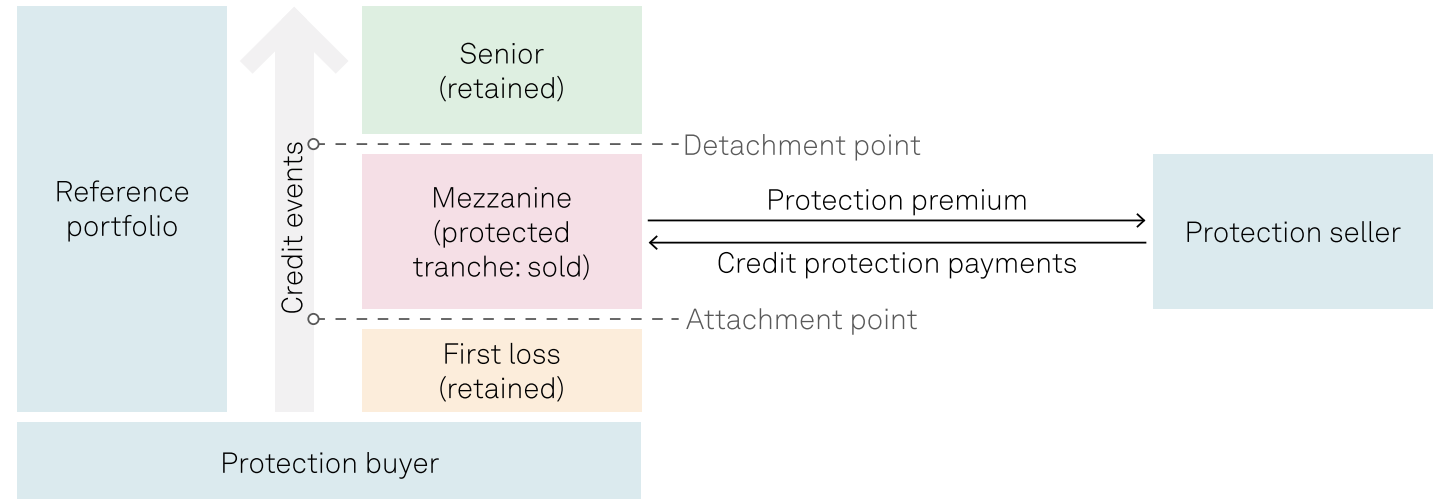




# Highlights | ABS Frontiers: The Credit DNA Of Synthetic Risk Transfer Securitizations

- Global banks are increasingly using credit risk transfer (CRT) securitizations to help manage their regulatory capital requirements and risk exposures.
- CRTs enable banks to offload part of an asset portfolio's credit risk to third-party investors, often synthetically through the issuance of credit-linked notes (CLNs).
- Assessing the creditworthiness of synthetic transactions can differ from traditional cash securitizations depending on how credit events and recoveries are defined, whether and how synthetic excess spread is determined, and the transaction's legal and counterparty risk exposures.
- Compared with traditional cash securitizations, our view of the creditworthiness of funded synthetic transactions depends more heavily on counterparties such as the originator (protection buyer), account bank, and temporary investments that collateralize the CLNs.

## Credit protection agreement example



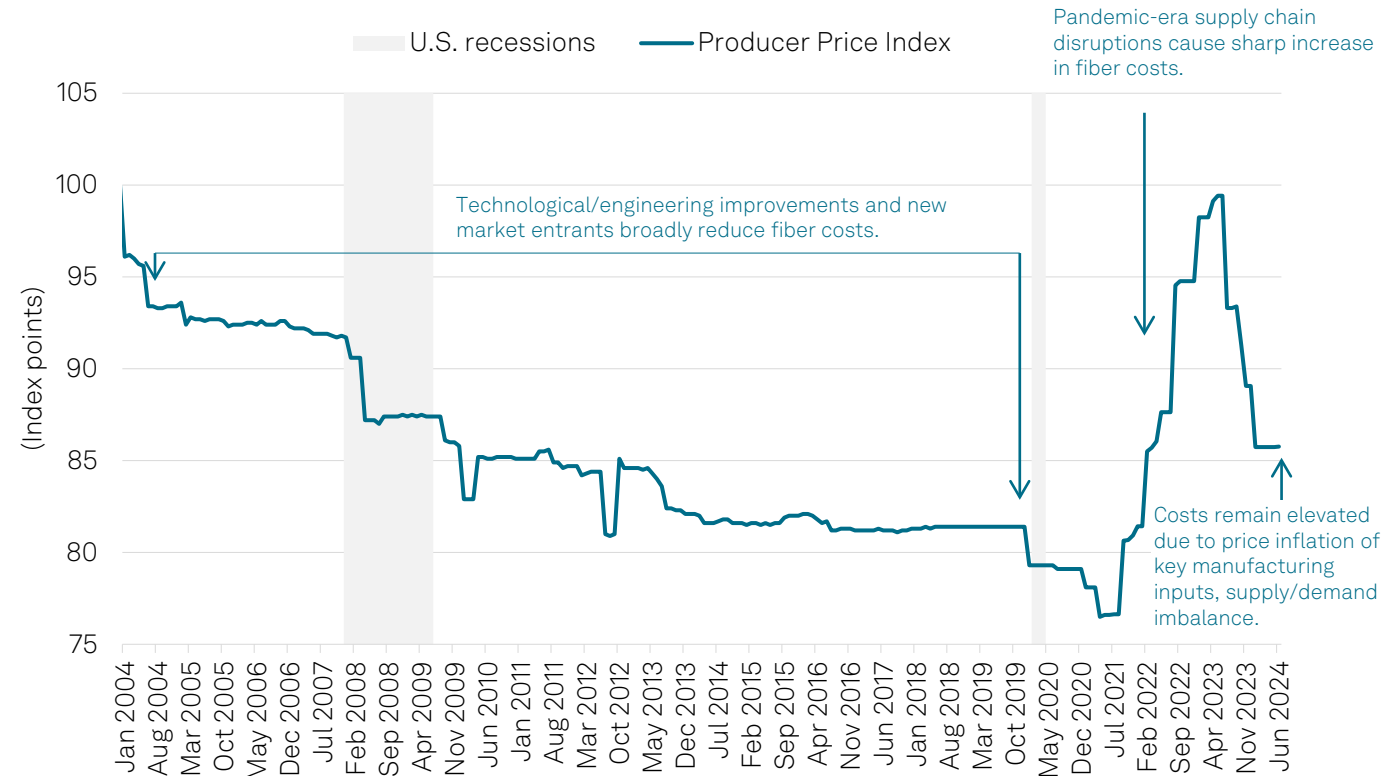
Source: S&P Global Ratings.

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# Highlights | ABS Frontiers: Digging Our Way To Fiber Securitizations

- Remote work trends and broad shifts in how society communicates have led to strong demand for broadband internet connections. To meet this demand in a practical sense, there are various technological models, the most advanced being fiber-to-the-home (FTTH), which involves a fiber connection directly from the source (such as a data center) to the end-user's desk.
- Despite the high costs related to construction and other capital expenditures, there is a large potential market for fiber technology. Fiber networks should expand alongside the growth of data centers, cloud computing, and artificial intelligence.
- High financial barriers to entry suggest that securitization may be a suitable mechanism for funding fiber projects, particularly in the U.S.
- While fiber optic technology has been around for decades, fiber ABS is a relatively new sector, and there are risks that need to be better understood.

Producer Price Index for fiber optic cable manufacturing



Source: U.S. Bureau of Labor Statistics

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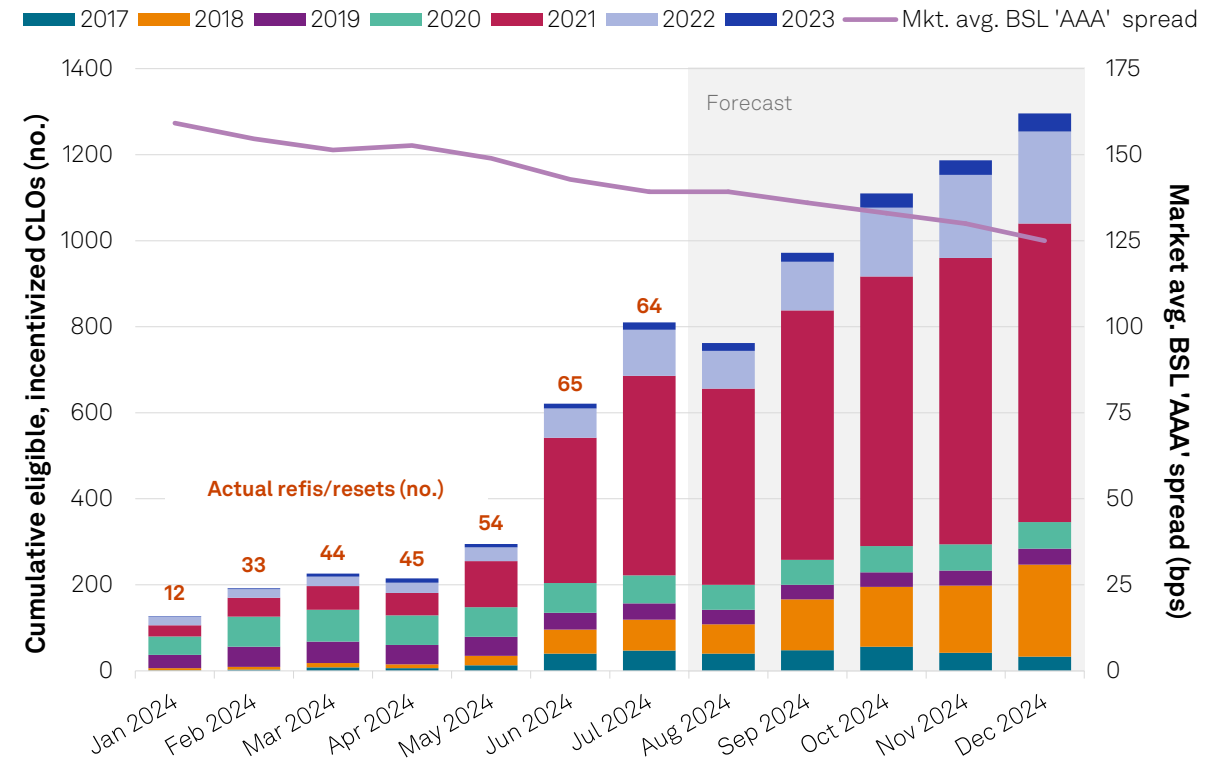




# Highlights | Will Market Volatility Reset CLO Reset/Refi Volume Expectations For Second-Half 2024?

- The steady descent of collateralized loan obligation (CLO) 'AAA' credit spreads has caused resets and refinancings (refis) of U.S. CLOs to rebound impressively this year, nearly matching the record pace of 2021. However, the recent tumult in global markets and potential spread volatility could hinder the prospects of further spread tightening, reducing the likelihood of a historic U.S. reset/refi wave. That said, reset/refi activity has not wavered as of early/mid-August.
- In the U.S., the 2021 CLO vintage is the focal point of potential reset/refi issuance. If the reset/refi incentive for 2021 CLOs increases much further, 2024 reset/refi volume could approach, or even surpass, the record \$252 billion full-year issuance that was priced in 2021.
- While 'AAA' spread tightening has spurred lively CLO new issuance activity in Europe, reset/refi deal flow has been comparatively quiet this year. Generally, this is because the majority of outstanding, refinance-reset-eligible European CLOs were priced with 'AAA' spreads much tighter than current levels.
- We present potential scenarios for U.S. and European CLO reset and refinancing volumes considering the universe of transactions outstanding in each market, how many of those transactions are eligible to be called, the incentives of CLO equity holders, and two paths of 'AAA' credit spreads.

## Spread tightening scenario: potential U.S. CLO refinance/reset volume, by vintage\*



\*Data as of July 2024. Market average BSL 'AAA' spread calculation excludes refinances and partial refinances. Middle-market CLO 'AAA' spreads are set 30bps higher than BSL 'AAA' spreads. BSL—Broadly syndicated loan. CLO—Collateralized loan obligation. Bps—Basis points. Sources: Pitchbook LCD and S&P Global Ratings. For more information on our methodology, see [“CLO Spotlight: Calling All CLOs! Or Not? Assessing The Potential Volume Of CLO Refinances And Resets”](#), published Feb. 22, 2024.

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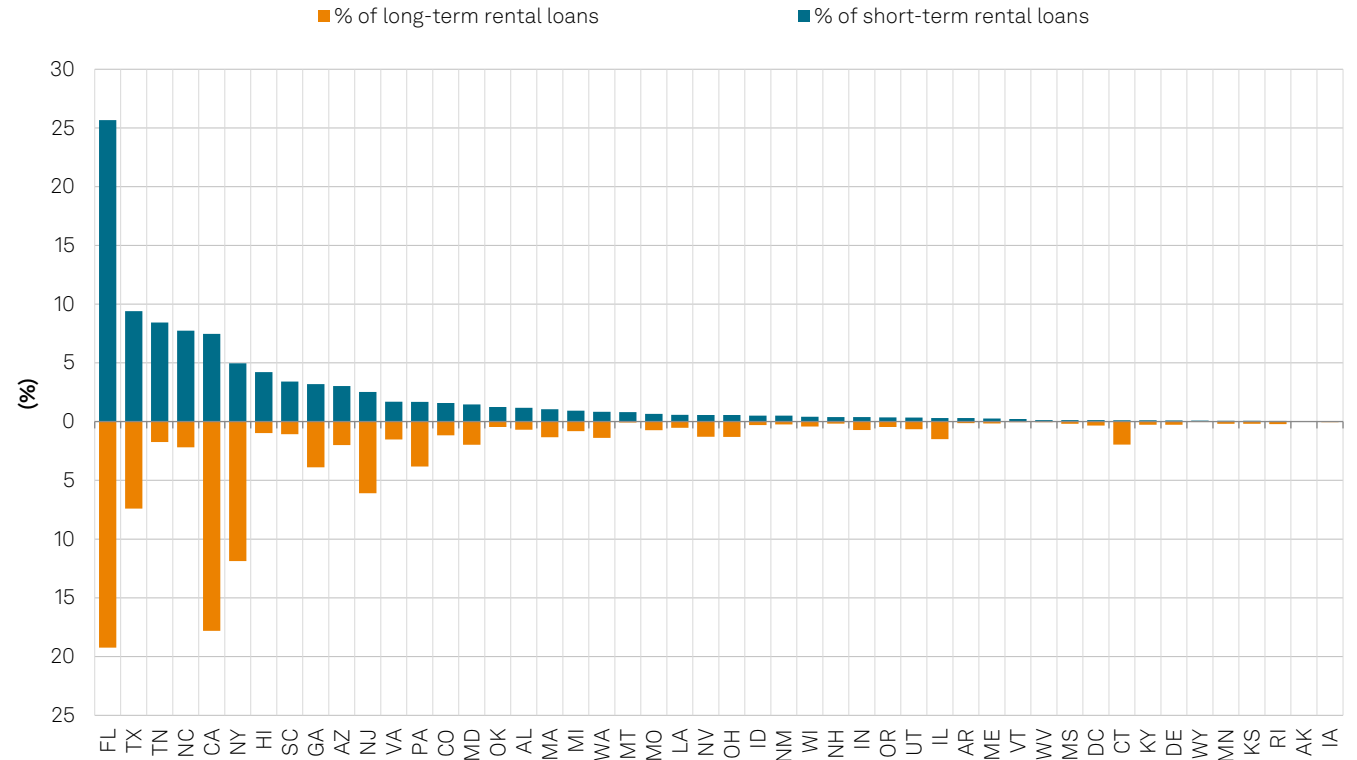


# Highlights | Non-QM Spotlight On Short-Term Rentals

- Debt service coverage ratio (DSCR) loans are mortgages on investor properties that are underwritten primarily based on the cash flow from the expected rental income. This market segment makes up roughly two-thirds (by balance) of the mortgages backing the non-qualified mortgage (non-QM) securitizations we rated between July 2022 and July 2024.
- The growing prevalence of Airbnb-style investments has led to increased origination and securitization of short-term rental (STR) DSCR loans, which we also see in non-QM deals, though they make up a relatively small portion (less than 10%) of non-QM DSCR investor loan pools.
- STR debt service coverage (DSC) is generally based on nightly, weekly, or monthly rent. On the other hand, long-term rental (LTR) DSC predominately depends on annual rental revenue. Compared to LTR loans, STR loans generally have higher DSCRs, loan balances, and property values.
- In the underwriting process, income for STR DSCR loans is consistently subject to haircuts above those for LTR DSCR loans. Nevertheless, except for higher property values, STRs typically have higher gross rental yields than LTRs.

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### Proportions of STR and LTR loans by state\*



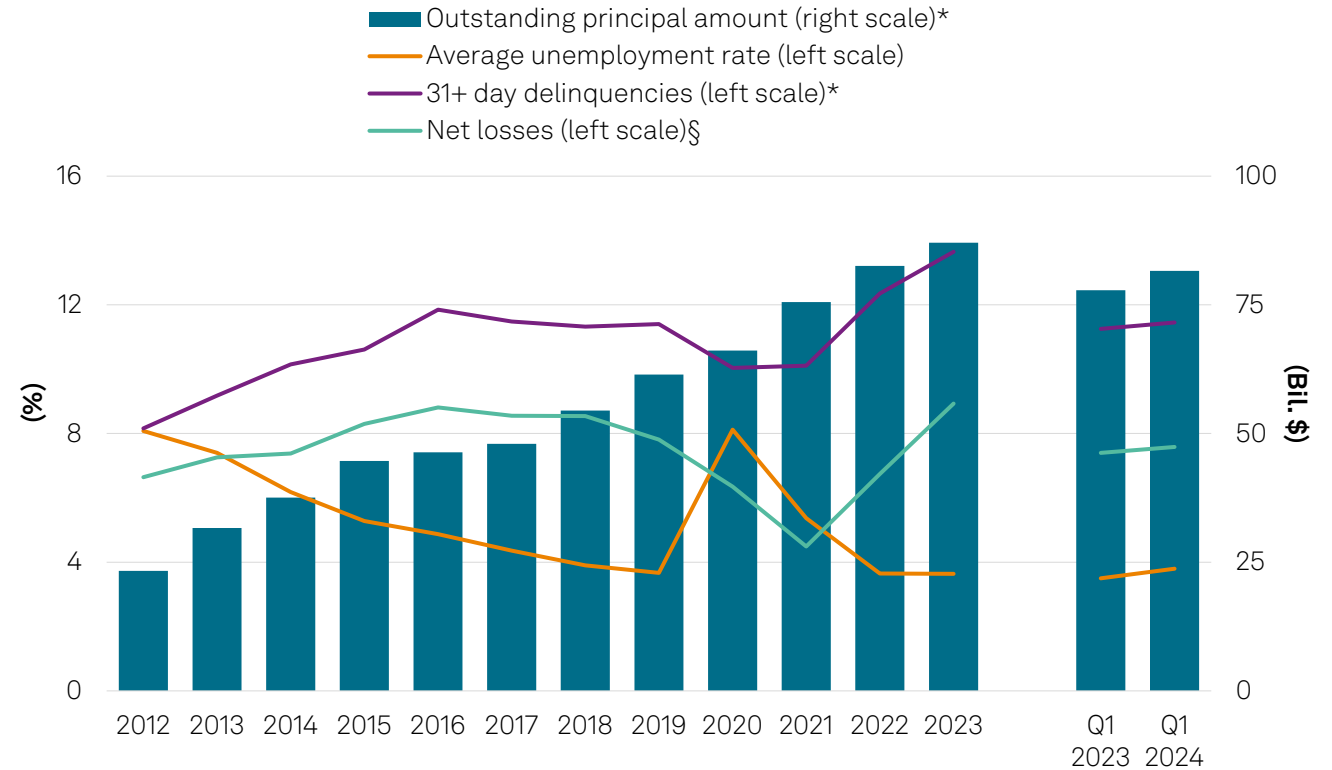
\*Percentages of STR and LTR loans are calculated in terms of their respective populations. In this way, summing all states for either STR or LTR (but not both) yields 100%. STR--Short-term rental. LTR--Long-term rental. Source: S&P Global Ratings.



# Highlights | Looking Back, Looking Forward: Lessons On U.S. Subprime Auto Loan ABS Performance

## Subprime auto loan managed portfolio statistics vs. unemployment rates

- In 2023, U.S. subprime auto loan ABS securitizers' managed portfolio delinquencies hit a record high, and net losses rose 32% year over year, reaching 2016 levels.
- However, based on first-quarter 2024 data, delinquencies appear to be stabilizing, and the growth in losses seems to have moderated.
- While the performance deterioration in 2023 reflects several factors, including rapid loan origination growth, the stabilization in delinquencies and losses in first-quarter 2024 is the manifestation of credit tightening many lenders implemented in the second half of 2022 through 2023.
- Our research on subprime auto lenders' managed portfolio performance revealed a historical pattern of rapid origination growth followed by performance deterioration. We believe this rapid growth, coupled with macroeconomic factors, contributed to the weaker performance of subprime auto loan issuers' managed portfolio in 2023.



\*Annual datapoints as of December 31 and quarterly datapoints as of March 31. §Net loss rates are calculated with respect to the average outstanding pool balance for each period. Note: This dataset represents a dynamic collateral pool in which losses are assigned to the period in which they occur. In contrast, with vintage static pool data, losses are assigned to the period in which the loans were originated or securitized. Source: S&P Global Ratings.

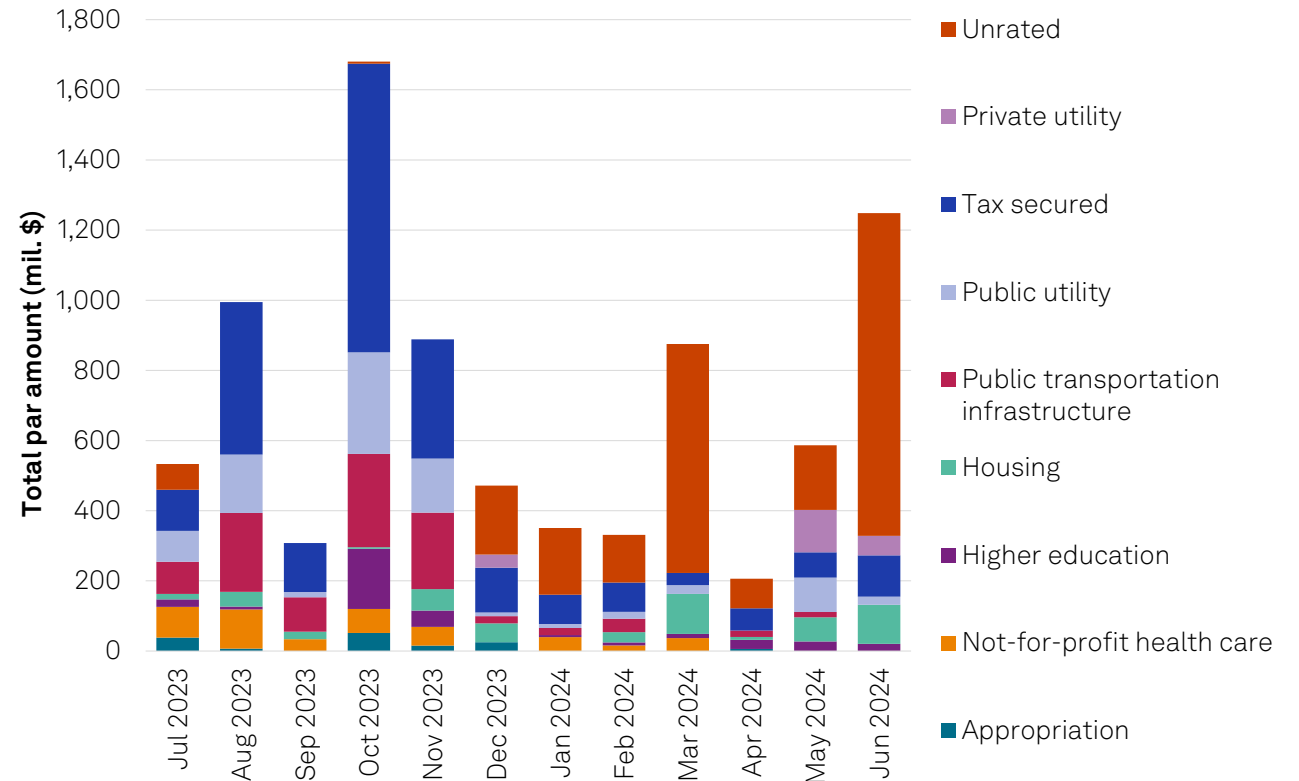
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# Highlights | Q2 2024 Tender Option Bond Update: Issuance Rose In June Despite Declining Year Over Year

- In second-quarter 2024, tender option bond issuance rose 21% to \$1.8 billion due to increased fund-sponsored activity, though it declined year over year.
- Citibank sponsored \$148 million in new issuance under its new 3a-7 compliant program in June, which is expected to ramp up in the second half of the year.
- Unrated bonds, specifically in the affordable housing sector, continued to represent most securitizations (54%) as sponsors seek higher yields.
- We raised 21 ratings and lowered four, primarily in the public transportation and not-for-profit health care sectors, which improved the upgrade-to-downgrade ratio to 2.6x.
- Average leverage as measured by floaters to residuals across fund-sponsored transactions remained steady at 3.32x.

Tender option bond issuance by sector

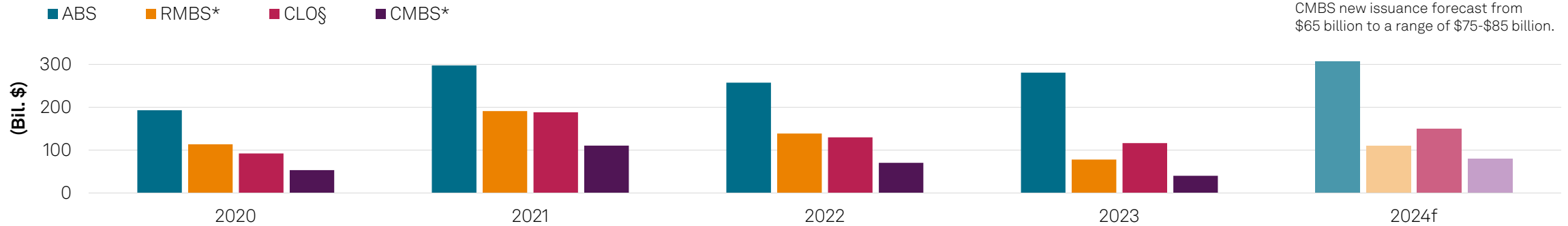


Source: S&P Global Ratings.

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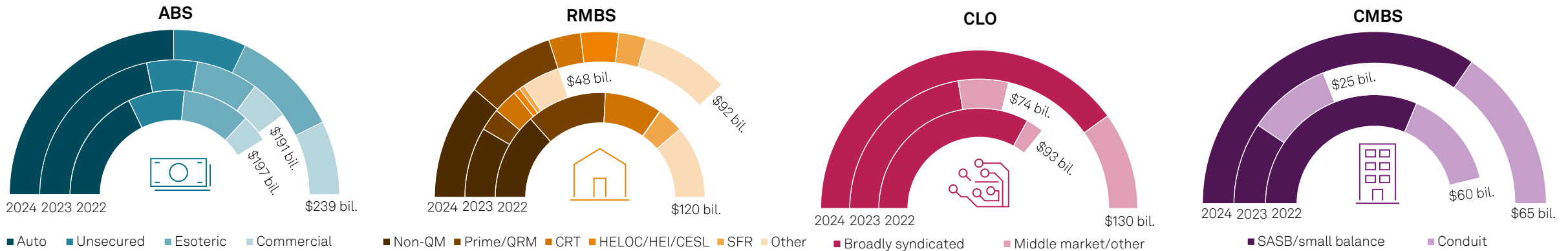
# Market-Wide Structured Finance Issuance | 2024 Issuance Eclipsed Full-Year 2023 Volume In August Despite Slower Deal Flow

## Annual new issuance



**Private-Label CMBS Forecast Revision**  
We increased our 2024 private-label CMBS new issuance forecast from \$65 billion to a range of \$75-\$85 billion.

## New issuance through the end of August



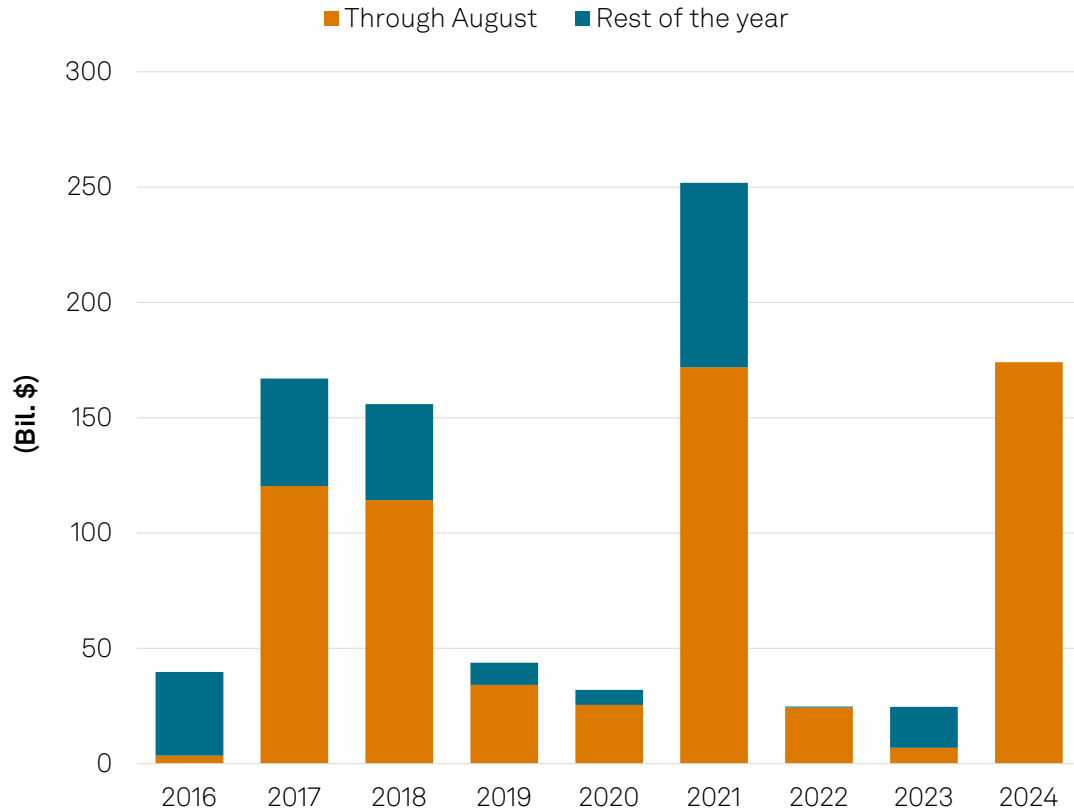
Note: Issuance volumes are rounded. New issuance volumes exclude CRE CLO transactions. \*RMBS and CMBS issuance volumes exclude agency mortgage-backed securities. §CLO refinancing-reset volume is not considered new issuance. ABS--Asset-backed securities. RMBS--Residential mortgage-backed securities. CLO--Collateralized loan obligations. CMBS--Commercial mortgage-backed securities. Non-QM--Non-qualified mortgage. QRM--Qualified residential mortgage. CRE--Commercial real estate. 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.





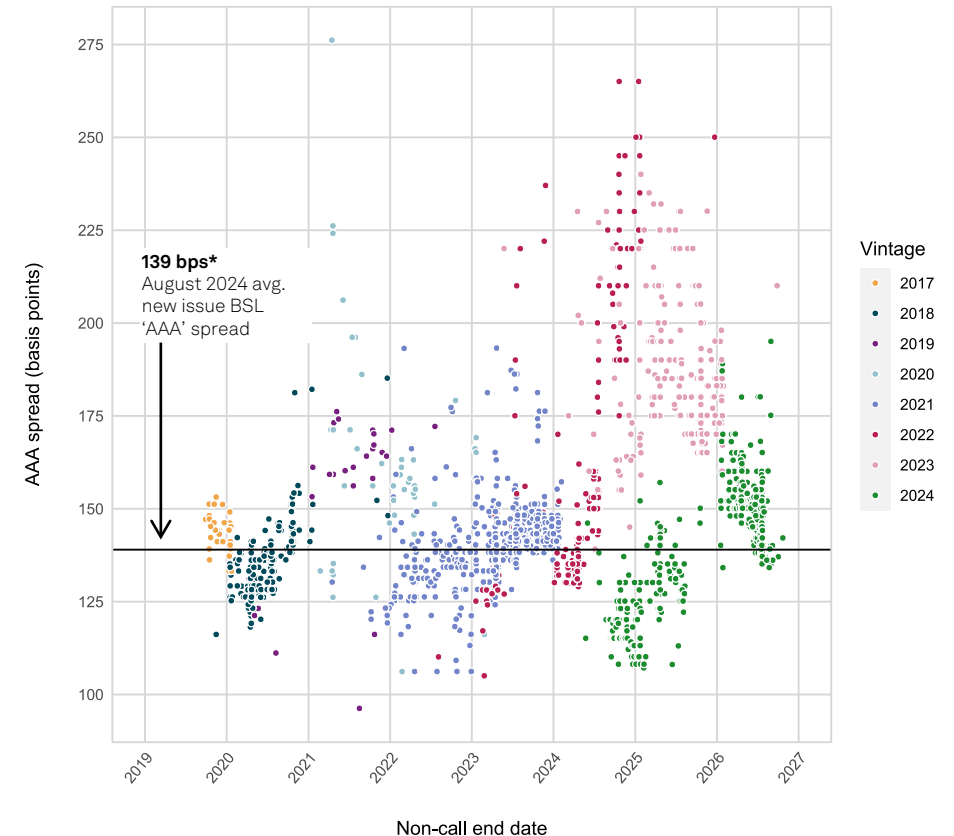
# CLO Refinancings And Resets | Record Year-To-Date Issuance Of \$174 Bil.

CLO refinance/reset issuance volume: 2024 outpaces 2021



Sources: Pitchbook LCD and S&P Global Ratings.

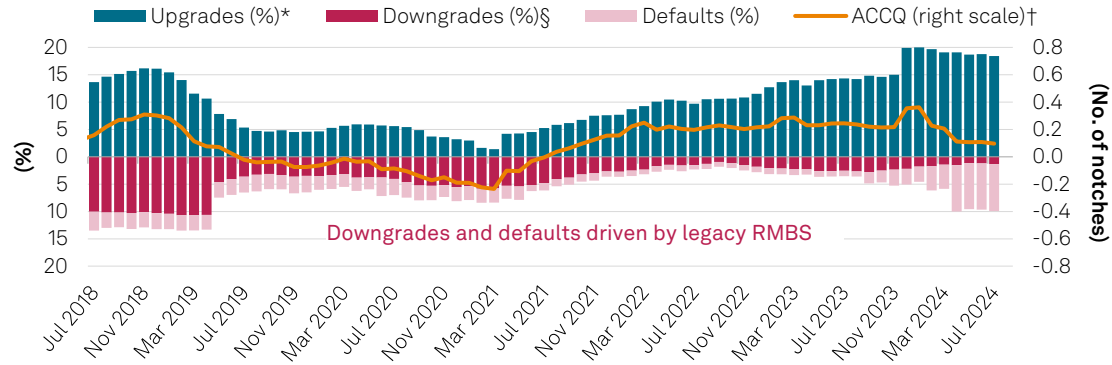
Outstanding U.S. BSL CLO 'AAA' spreads and non-call period end dates, by vintage



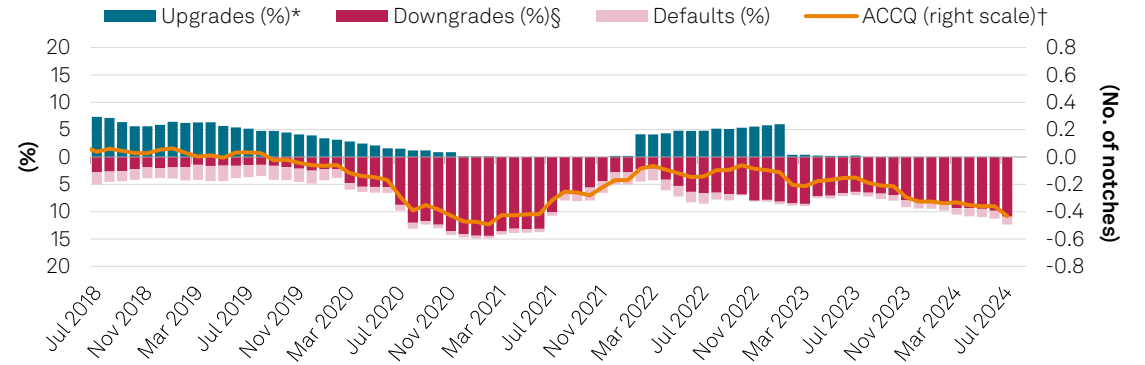
\*Market average BSL 'AAA' spread calculation excludes refinances and partial refinances. Note: The spreads of reinvesting transactions and transactions within two years of their reinvestment period end date are plotted. The spreads of transactions that have already refinanced or reset previously are plotted (vintage is adjusted to reflect most recent iteration of the CLO). BSL--Broadly syndicated loan. CLO--Collateralized loan obligations. Bps--Basis points. Sources: Pitchbook LCD and S&P Global Ratings.

# Ratings Performance | Average Change In Credit Quality By Sector

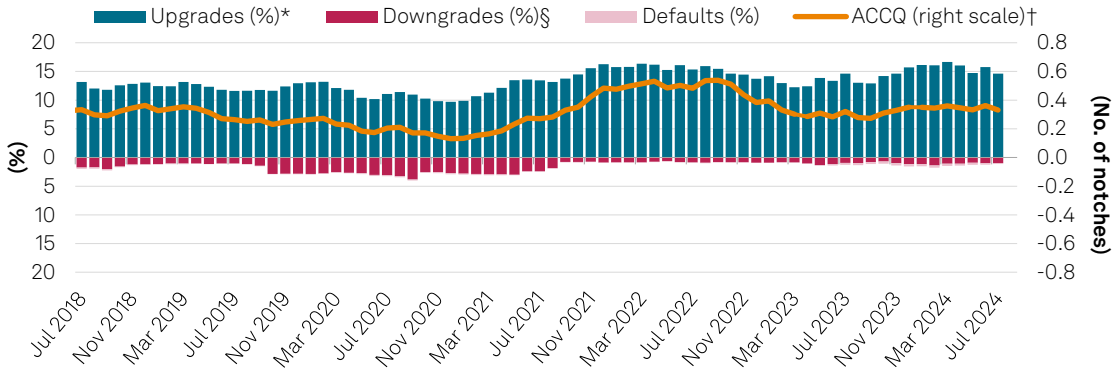
## RMBS



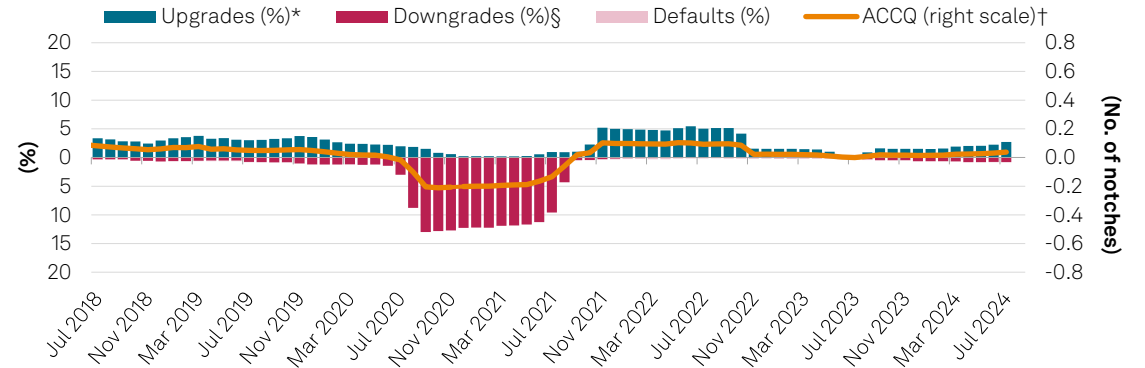
## CMBS



## ABS<sup>‡</sup>



## 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 each 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.  
 RMBS--Residential mortgage-backed securities. CMBS--Commercial mortgage-backed securities. ABS--Asset-backed securities. CLO--Collateralized loan obligation. ACCQ--Average change in credit quality. NR--Not rated. Source: S&P Global Ratings.

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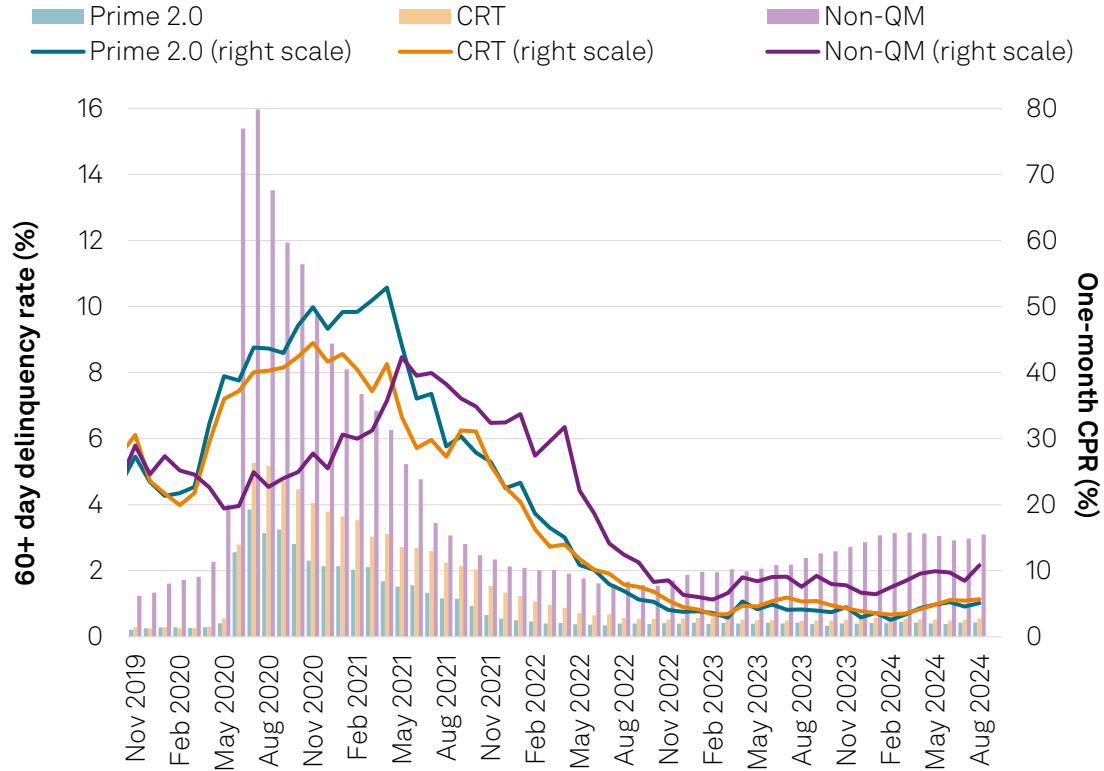


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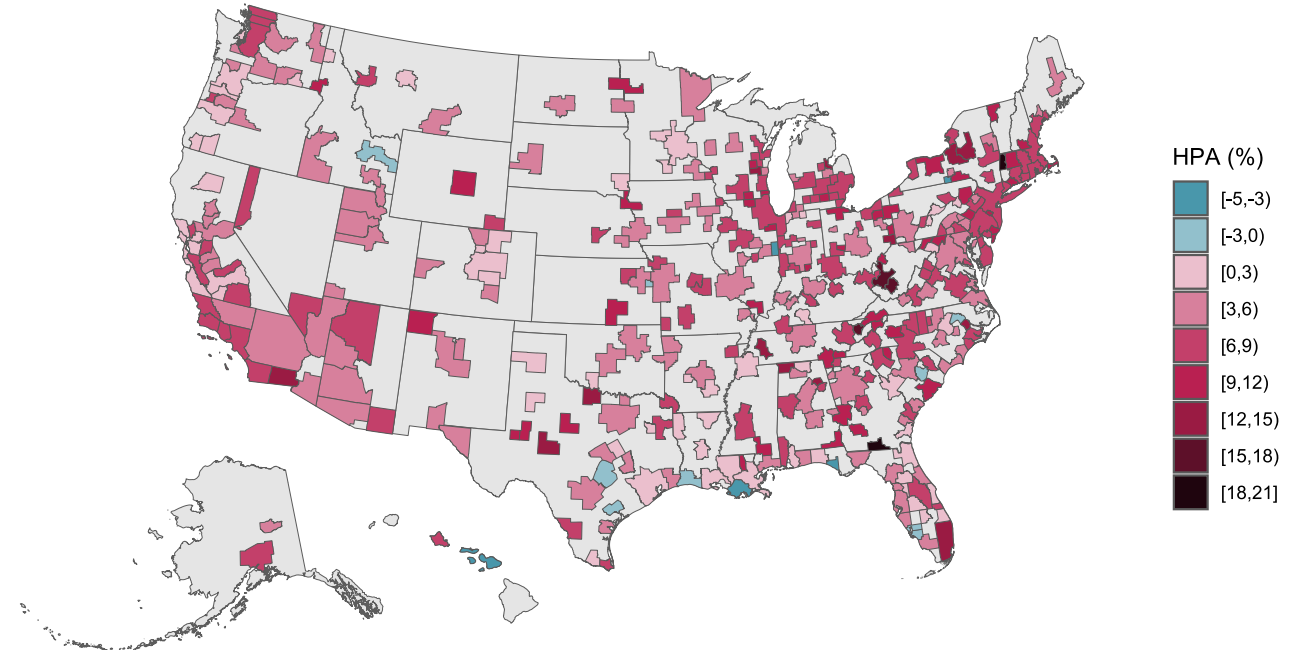
# RMBS | Strong Annual Home Price Appreciation Prevails Across The U.S.

## RMBS collateral performance\*



\*Data as of Sep. 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.

## Second-quarter 2023 to second-quarter 2024 HPA, by MSA\*



\*Ten MSAs depict combined data from two or more metropolitan divisions due to overlapping geographic locations. The HPA rate from the metropolitan division with the highest core city population was chosen for each combined MSA. MSA--Metropolitan statistical area. HPA--Home price appreciation. Sources: Federal Housing Finance Agency All Transactions Home Price Index and S&P Global Ratings.

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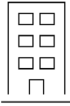


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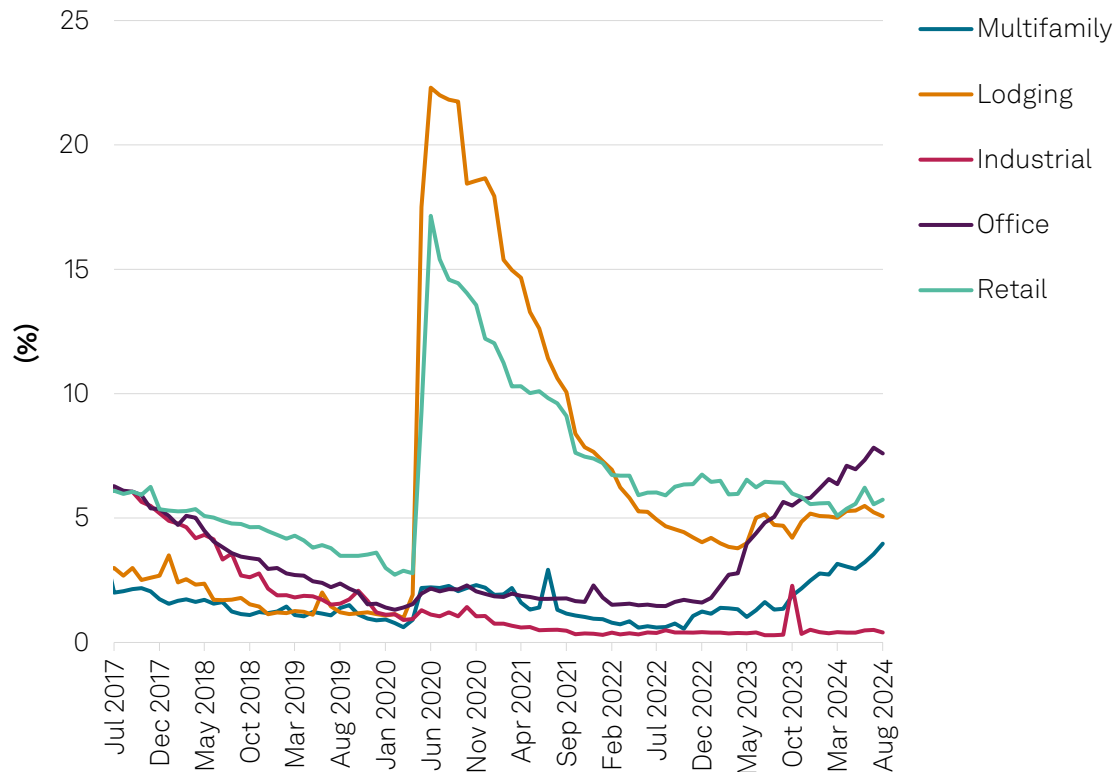
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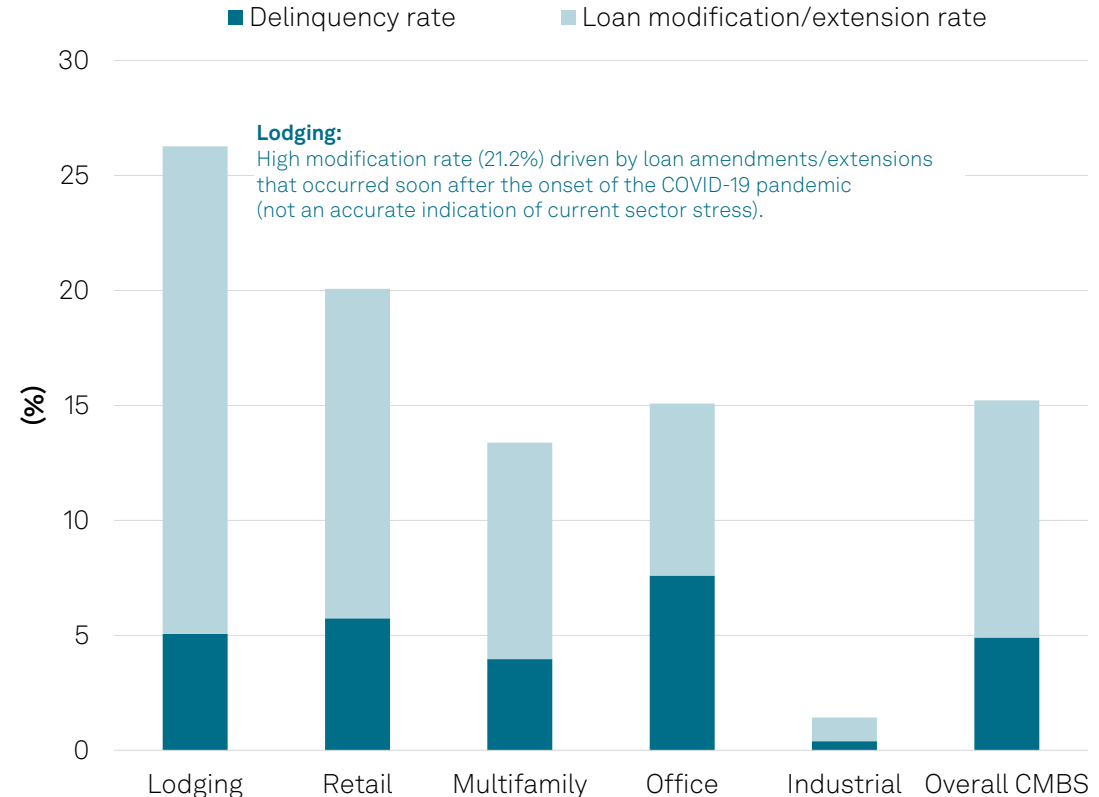
# CMBS | Office And Multifamily Delinquencies Climbing; Loan Modification Rates Reveal Extent Of CRE Stress

Delinquency rate by property type



Source: S&P Global Ratings.

Delinquency and modification/extension rate by property type\*



\*Data as of August 2024. Based on loans backing commercial mortgage-backed security transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

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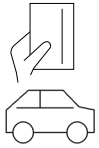
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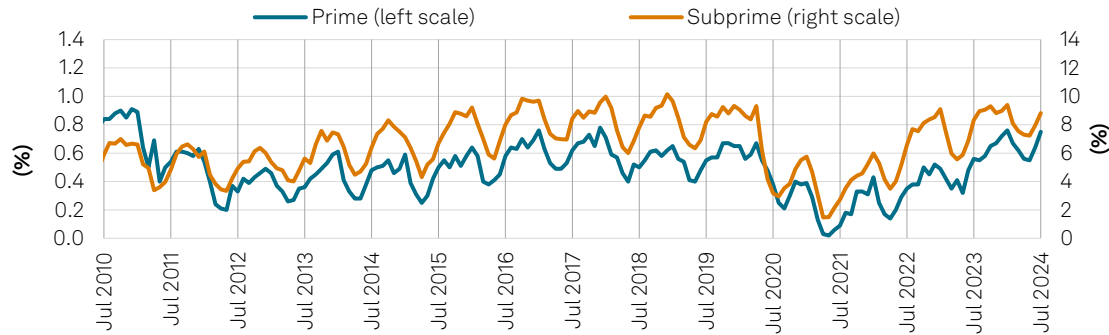
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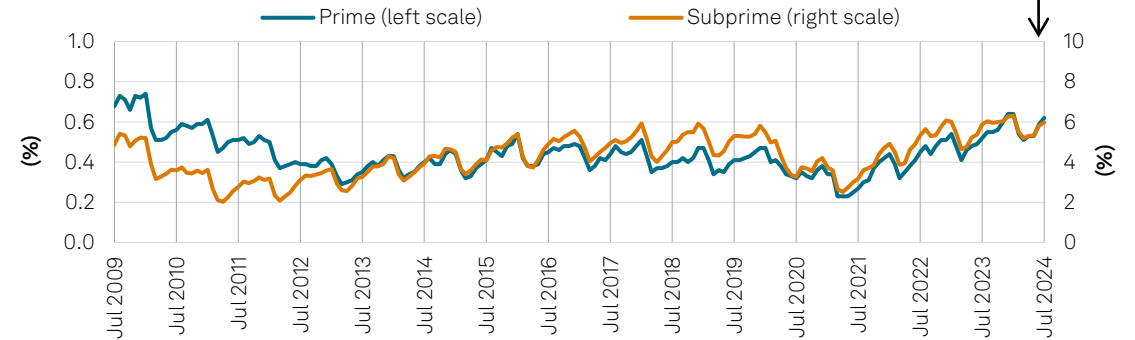
# ABS | Auto Loan ABS Collateral Performance And Bankcard Credit Card Quality Index

Prime index sees highest delinquency rate for the month of July since 2009.  
Subprime index reaches record July delinquency rate.

## Auto loan ABS net loss rates\*

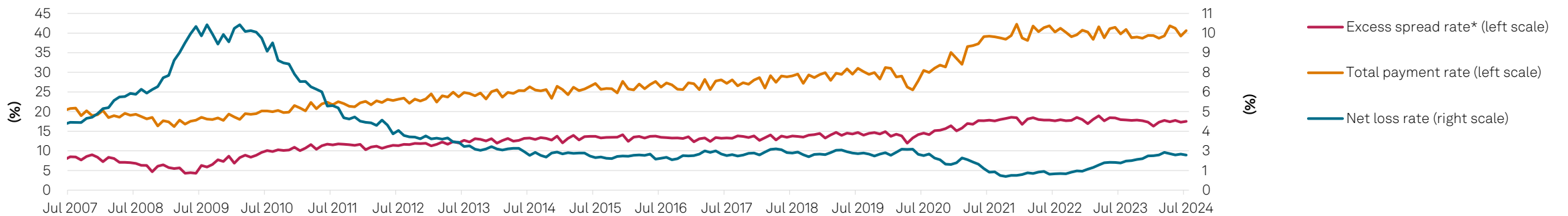


## Auto loan ABS 60+ day delinquency rates\*



\*Based on auto loan ABS transactions rated by S&P Global Ratings. Monthly net loss rates are annualized. ABS--Asset-backed securities. Source: S&P Global Ratings.

## Bankcard Credit Card Quality Index§



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

# Esoteric ABS



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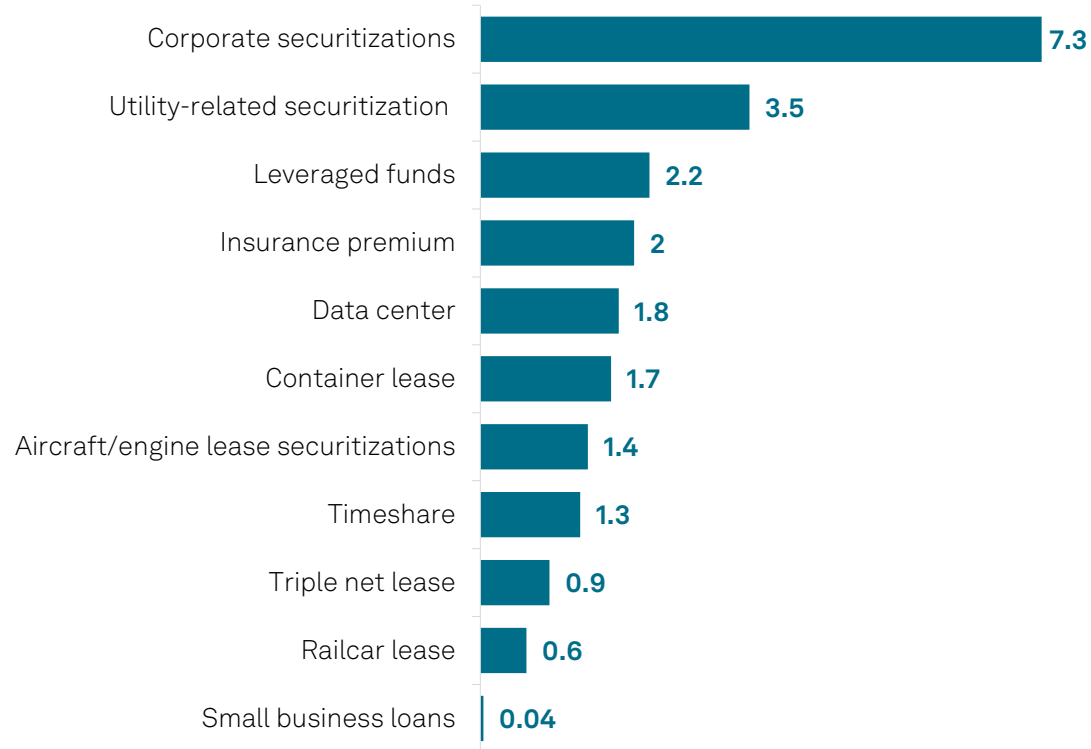
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# Esoteric ABS | 2024 Year-To-Date Issuance And Rating Actions

## New issuance (bil. \$)\*



\*S&P Global Ratings-rated issuance. Source: S&P Global Ratings.

## Surveillance rating actions by asset class (no.)

Asset class	Affirmation	Downgrade	Upgrade	Total
Container lease	38		3	41
Triple net lease	20			20
Corporate securitization	13	1		14
Aircraft/aircraft engine loans and lease	1		8	9
Structured settlements	3		5	8
Small business loans	2		5	7
Railcar lease			4	4
Solar securitization	2	2		4
Leveraged funds			3	3
Private equity CFO	1			1
<b>Total</b>	<b>80</b>	<b>3</b>	<b>28</b>	<b>111</b>

Source: S&P Global Ratings.



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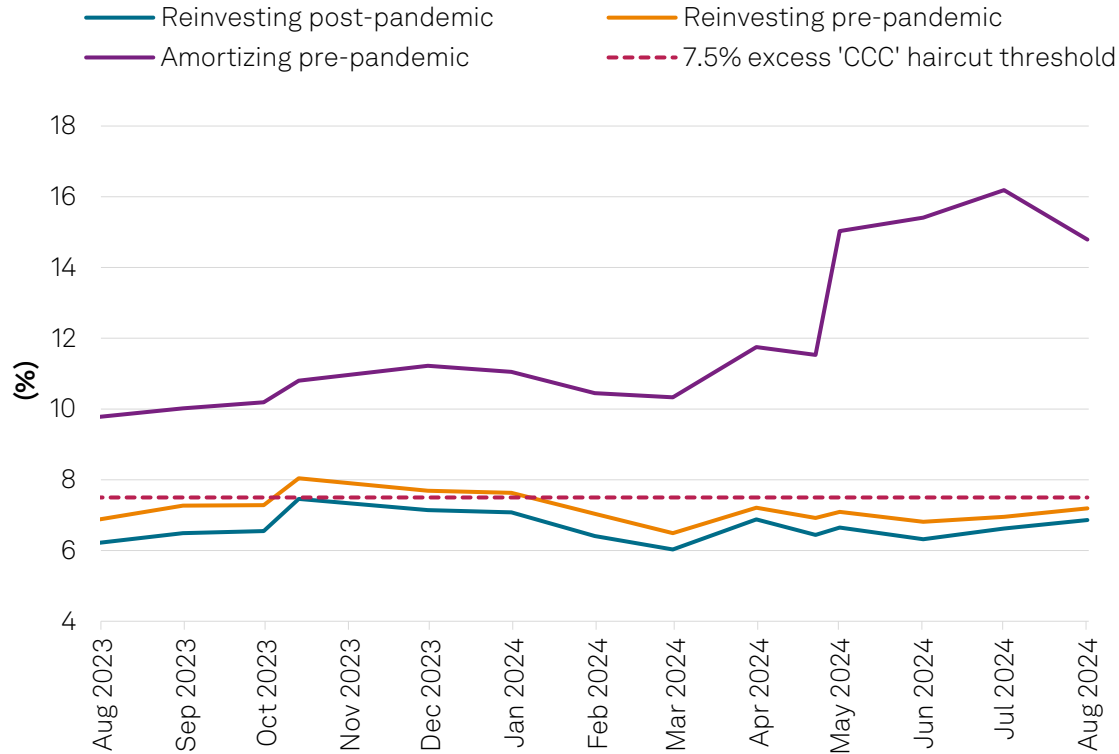
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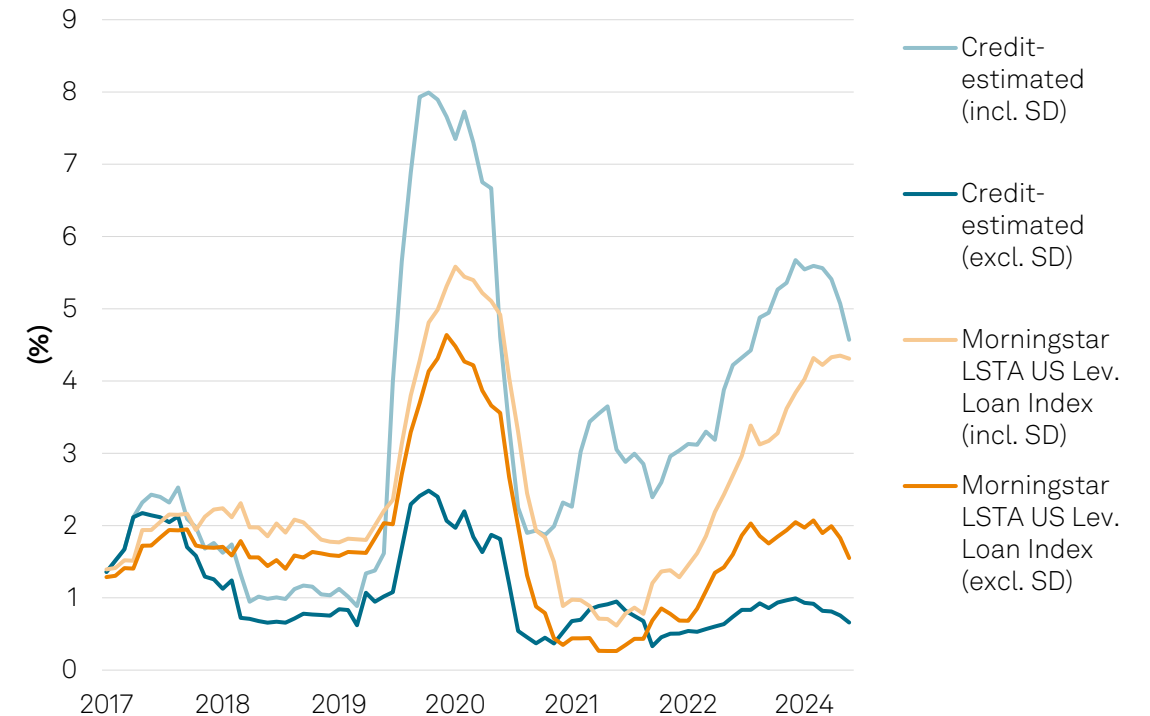
# CLO | BSL CLO Exposure To 'CCC' Assets; Comparing Credit-Estimated And Syndicated Loan Default Rates

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



\*Dataset is derived from transactions included in our U.S. BSL CLO Insights Index. 'CCC' exposures represent derived opinion (not ratings). Derived opinion is an input determined by S&P for inclusion in CDO Evaluator. July and August 2024 datapoints are in progress and based on the most recent portfolio statistics available to us. BSL—Broadly syndicated loan. CLO—Collateralized loan obligation. Source: S&P Global Ratings' [U.S. CLO Insights dashboard](#).

## Credit-estimated vs. syndicated loan default rates Credit-estimated companies have higher selective defaults but fewer conventional defaults



SD—Selective defaults. Source: S&P Global Ratings and Pitchbook LCD.

# ABCP/ Muni-Structured



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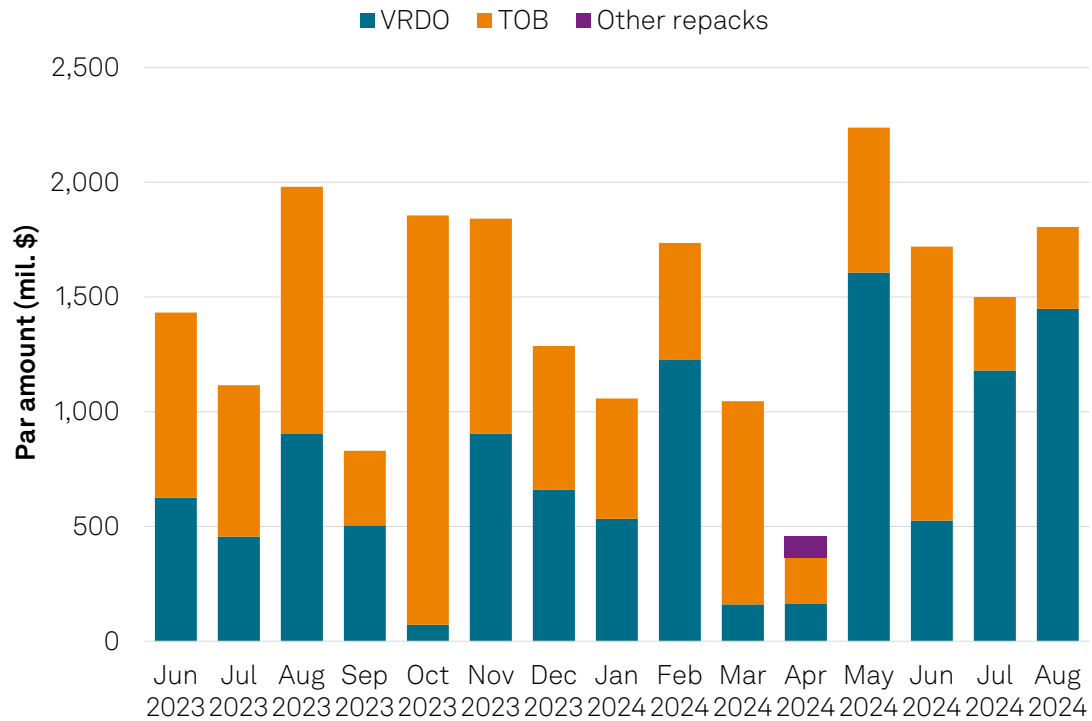
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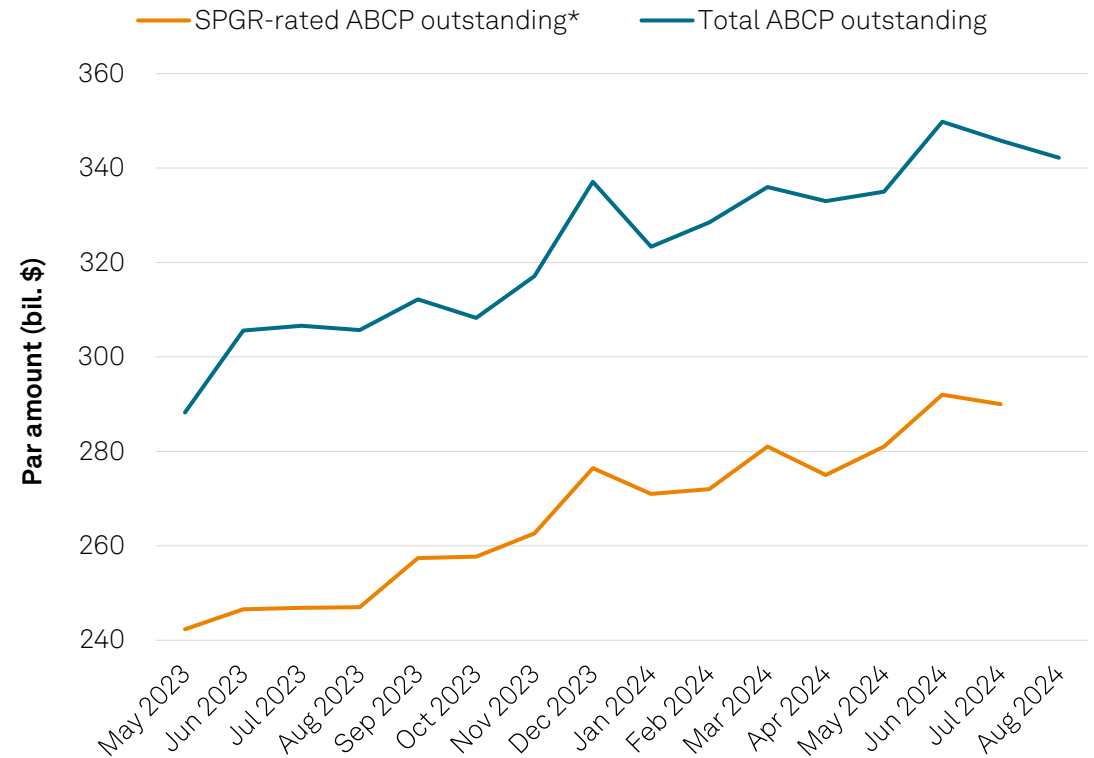
# ABCP Muni-Structured | New Issuance And Outstanding Amounts

### SPGR-rated short-term variable-rate municipal issuance



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

### ABCP outstanding



\*August 2024 data not yet available. ABCP—Asset-backed commercial paper. Sources: S&P Global Ratings and U.S. Federal Reserve.



## Recent Research

Sector	Publications
RMBS	<a href="#">CreditWeek: Is U.S. Housing Becoming (A Little) More Affordable?</a>
CMBS	<a href="#">U.S. CMBS Delinquency Rate Rose 5 Bps To 4.9% In August 2024; Office Loans Maintain The Highest Rate</a>
ABS	<a href="#">Structured Finance U.S. And Canada ABS: First-Half 2024 Round-Up</a>
	<a href="#">U.S. Auto Loan ABS Tracker: July 2024 Performance</a>
Esoteric ABS	<a href="#">Structured Finance Esoteric Quarterly Roundup: Q3 2024</a>
CLO	<a href="#">U.S. BSL CLO And Leveraged Finance Quarterly: Will A Cooling Inflationary Breeze Support Credit Resiliency? (Q3 2024)</a>
	<a href="#">Private Credit And Middle-Market CLO Quarterly: Pick Up In Performance And PIKs (Q3 2024)</a>
	<a href="#">CLO Insights U.S. BSL Index: Slight Pickup In Some Junior O/C Cushions; Middle-Market CLO Manager Overlap By EBITDA</a>
ABCP/Muni-Structured	<a href="#">Inside Global ABCP: 2024 Update</a>
Servicer Evaluations	<a href="#">The Importance Of Cyber Security For U.S. And Canadian Servicers In A Challenging Environment</a>



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