Global Structured Finance 2021 Outlook: Market Resilience Could Bring Over $1 Trillion In New Issuance

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Introduction | Global Structured Finance Outlook

What To Look For Over The Next Year

Entering 2021, the impact of the COVID-19 pandemic on global macroeconomic growth and the knock-on effects on asset prices, market sentiment, interest rates, and consumer credit (to name a few) will remain the key factors dictating structured finance issuance and performance through the year. And much like our outlook for the ongoing recovery of the global economy, performance may continue to be somewhat uneven depending on the specific structured finance asset class or region. With this in mind, we begin the 2021 edition of our global structured finance outlook with seven trends and observations to look out for in the year ahead.

1. Downside ratings bias still exists, but a large second wave of downgrades is unlikely

In 2020, 2,551 structured finance rated tranches experienced at least one negative rating action through Dec. 11 as a result of the pandemic's impact and/or the decline in oil and gas prices (see chart below). While this number includes some classes that were placed on CreditWatch with negative implications and subsequently affirmed, there were nearly 2,000 related downgrades in 2020. To put this in perspective, the 2,300 rating actions in North America (to date, there were none in Canada) accounted for about 6.3% of our rated book by count.


Only a small number of classes currently remain on CreditWatch negative. We don’t foresee another downgrade wave of similar magnitude this year, especially considering that the vaccine rollout has already begun. That said, there remains some risk in certain areas, such as commercial real estate and pockets of...
Global Structured Finance Outlook

on consumer/esoteric asset-backed securities (ABS). On the consumer side, further stimulus is a wildcard that will play into our credit outlook. The collateralized loan obligation (CLO) outlook on both sides of the pond has stabilized, and, while there may be some sporadic actions, we don’t foresee another surge of downgrades on the U.S. side, absent another downturn in the ratings for the mostly speculative-grade companies (rated ‘BB+’ or lower) underlying the loans.

2. Issuance is set to rebound, led by the U.S. and China

All things considered, issuance remained resilient in 2020. At midyear, in the thick of the first wave of the pandemic, we projected a roughly 25% decline in the full-year 2020 total. The decline turned out to be closer to 7%, largely due to a year-over-year increase in issuance in China, steady figures from Japan, and robust U.S. ABS and CLO volumes. In 2021, we forecast a roughly 14% increase from 2020 levels, to just over $1.2 trillion equivalent, with issuance flat or higher in every major region. We expect China (which was in a sense “first-in first-out” regarding the pandemic impact) to continue its growth and post a about 15% increase. The U.S. and Europe are set for moderate increases of 15% and 10%, respectively.

Global Structured Finance New Issue Volumes(i)

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<tr>
<td>U.S. (bil. US$)</td>
<td>436</td>
<td>373</td>
<td>510</td>
<td>540</td>
<td>582</td>
<td>452</td>
<td>520</td>
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<tr>
<td>Canada (bil. C$)</td>
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<td>18</td>
<td>20</td>
<td>25</td>
<td>19</td>
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<tr>
<td>Europe (bil. €)</td>
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<td>81</td>
<td>82</td>
<td>107</td>
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<td>Asia-Pacific (bil. US$)</td>
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<tr>
<td>China</td>
<td>97</td>
<td>116</td>
<td>220</td>
<td>292</td>
<td>334</td>
<td>432</td>
<td>500</td>
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<td>Australia</td>
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<td>31</td>
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<td>Total APAC</td>
<td>159</td>
<td>185</td>
<td>304</td>
<td>371</td>
<td>420</td>
<td>514</td>
<td>582</td>
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<td>Latin America (bil. US$)</td>
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<tr>
<td></td>
<td>11</td>
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<td>17</td>
<td>9</td>
<td>13</td>
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<td>Approximate global new issue total (bil. US$)</td>
<td>700</td>
<td>670</td>
<td>930</td>
<td>1,050</td>
<td>1,150</td>
<td>1,070</td>
<td>1,225</td>
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(i) We reserve the right to periodically revise these numbers retroactively as new information arises. Covered bonds and ABCP are excluded from these totals. F—Forecast. Source: S&P Global Ratings.

3. The commercial real estate downturn remains an area of focus

The commercial real estate sector continues to grab headlines and will certainly remain an area of focus in 2021. This is largely due to current pockets of credit distress—namely selected areas of the retail and lodging subsectors—and the potential for the distress to spread to other areas of the market. Indeed, there is a healthy debate about the future performance of office markets, especially in densely populated gateway cities, and how certain urban multifamily markets will perform if there is a longer-term population shift away from those cities. These factors have already had an impact on commercial mortgage-backed securities (CMBS) ratings in 2020—a trend that may continue into 2021, with U.S. CMBS delinquency levels still elevated, although off their peaks.

4. Forbearance and payment holidays ending

The use of forbearance and payment holidays has benefited consumer ABS, CMBS, and, to some extent, residential mortgage-backed securities (RMBS) credit to this point in the pandemic. We are likely to see these types of arrangements begin to end as we move through 2021 and will be keeping a close eye on the
5. An uneven recovery for the global economy

Due to the new surge in COVID-19 cases and varying levels of lockdown in the U.S. and Europe, our economists are forecasting a weaker start to 2021, with full-year global GDP growth now at 5.0%, down from 5.3% previously. Forecasts for 2022 and 2023 are for 4.0% and 3.6% growth, respectively. Unemployment is not forecasted to recover to 2019 levels until 2023 or later in most regions, save China. Hope is on the horizon with the news of several successful vaccines, but there is still downside risk to our baseline (see "Global Economic Outlook: Limping Into A Brighter 2021," published Dec. 3, 2020).

6. LIBOR transition to continue

While issuance of floating-rate structured finance transactions using LIBOR continued in 2020, most issuers incorporated robust fallback language into liability transaction documents to minimize a disorderly transition when LIBOR phases out. The biggest challenge going forward continues to be legacy transactions. On Nov. 30, 2020, the ICE Benchmark Administrator issued a consultation with coordinated support from U.S. federal banking regulators that extends the phaseout date for most U.S. dollar LIBOR maturities by 18 months to June 2023. As of this writing, the December 2021 deadline for the four non-U.S. dollar LIBOR currencies remains intact. U.S. banking regulators have also urged banks to stop using U.S. dollar LIBOR in new contracts by December 2021. Therefore, securitization markets will see transaction activity and developments occur outside the U.S. market first.

7. Environmental, social, and governance (ESG) factors to play an expanding role in structured finance

The ‘G’ in ESG, governance, has long been part of structured finance transactions. The ‘E’ and the ‘S’ appear to be growing in influence and have certainly become a more frequent topic of conversation among market participants. Examples include CLOs that highlight ESG in their asset selection, CMBS and green buildings (though this has been around for some time via Leadership in Energy and Environmental Design certifications), clean energy transactions, etc. We have also published Green Evaluations on property assessed clean energy (PACE) transactions. Further, ESG factors accounted for numerous rating actions in 2020. To be sure, the path forward and the ultimate influence of ESG on structured finance both remain somewhat unclear at this point, though ESG certainly appears to be gaining in importance.
Global Structured Finance Outlook

U.S. | Auto Loan ABS

Key Takeaways
- New issuance could reach $83 billion in 2021 due to an expected increase in vehicle sales.
- Delinquencies and losses will likely rise from last year’s levels, which were at record lows due to COVID-19-related extensions.
- We expect ratings on investment-grade auto loan ABS to remain stable, while speculative-grade classes may be more vulnerable to downgrade.

What To Look For Over The Next Year

Despite U.S. light vehicle sales declining an estimated 15% to 14.4 million in 2020, auto loan ABS volume declined only 9% to $75.3 billion. In fact, GM Financial and Ford Credit issuances increased year over year due to growth in their origination volumes through the first nine months of 2020, compared with the same period in 2019. Their higher origination volumes were partly due to attractive loan programs, such as 0% financing on 84-month loans, which were introduced to spur sales. However, bank sector and subprime issuances declined. The top six 2020 auto loan issuers were: GM Financial/AmeriCredit ($8.3 billion), Toyota Motor Credit ($7.9 billion), Ford Credit ($7.4 billion), Santander Consumer USA ($7.0 billion), American Honda Finance Co. ($5.0 billion), and CarMax Business Services ($5.6 billion).

Given our current forecast for auto sales to increase 14% to 16.4 million units in 2021, we believe auto loan ABS could reach 2019’s level of approximately $83 billion. That said, in the current unprecedented environment, performance is difficult to project and will depend greatly on the following factors:
- The course of the pandemic and the actions taken to halt the spread of the virus, including restrictions on certain people-facing businesses;
- Unemployment levels;
- The effectiveness of the new round of stimulus checks ($600 for some individuals) and continuation of enhanced employment pay of $300 a week;
- The degree to which lenders can continue to offer borrower assistance, such as loan extensions and modifications;
- Lender underwriting standards and policies, which remain under pressure due to the intensely competitive environment. Loan terms are continuing to lengthen with a growing percentage of 84-month loans in prime pools; and
- Used vehicle values and recovery rates, which are likely to continue to soften from their record high levels in August 2020.

Following the onset of the pandemic, lenders provided a record amount of extensions, some of which allowed the borrowers to skip two to four payments and have these added to the backend of their loan terms. These, along with federal stimulus checks and enhanced unemployment benefits, had the effect of suppressing delinquencies and losses to record-low levels. And while extension levels have generally declined after peaking in April, they started to trend upward again in September for subprime pools.
Despite numerous uncertainties, we currently believe credit performance will begin to normalize this year, with delinquencies and losses rising moderately. This is based on our economic outlook that unemployment levels will remain elevated and won’t return to pre-pandemic levels until 2023, recovery rates declining from the record high levels reported in August and September, and borrower assistance programs, including extensions, becoming less available.

Even so, we expect ratings on investment-grade auto loan ABS to remain stable. However, speculative-grade classes, which are confined to subprime, are more vulnerable to downgrades, given their lower credit enhancement levels and longer time to maturity. The lowest-rated classes are also susceptible to backend losses associated with loans that have had payment deferrals, which have a higher likelihood of defaulting than non-extended loans.
U.S. | Auto Lease ABS

Key Takeaways

− We forecast issuance volume of $20 billion in 2021, which is slightly higher than in 2020.
− We also expect auto lease credit quality and collateral performance to remain stable.
− ABS ratings are also likely to remain stable.

What To Look For Over The Next Year

We expect auto lease ABS issuance of about $20 billion in 2021—slightly higher than 2020’s full-year volume of $19.2 billion—and issuers to maintain their usual issuance cadence of two auto lease ABS transactions per year on average. The COVID-19 pandemic mildly affected auto lease ABS issuance in 2020. Prior to the outbreak, roughly 41% of the year’s total volume had already been issued in January and February. Despite the disruption, most issuers were able to resume their usual issuance cadence in the second half of the year. The pandemic did, however, reduce BMW's 2020 issuance plans (the company typically issues at least one auto lease ABS per year), but we expect a return in 2021. And although 2020 volumes and our 2021 forecast represent a decline of 10% and 6%, respectively, from 2019 levels (which was a peak issuance year for auto lease ABS at $21.2 billion), these levels are still at least 20% higher than 2016-2018 volumes (see chart below).

U.S. Auto Lease ABS Issuance

New vehicle lease penetration rates fell below 26% in second-quarter 2020 from an annual historical average of 30%. During this time, despite the pandemic, many captive lenders offered very attractive financing options, including 0% annual percentage rates and extended loan terms, to boost vehicle sales. As such, some consumers who would have otherwise leased instead financed their vehicle purchases. These offers have since expired, and we expect leasing volumes to return to usual levels; in fact, the third-quarter penetration rate was approximately 26.2%. Without significant available incentives, leasing continues to be the more affordable option for lower monthly payments.

We expect auto lease ABS credit quality and collateral performance to remain stable this year. Residual values on returned off-lease vehicles, which has generally followed wholesale used vehicle prices, held up well and showed resilience despite a one-month decline in April. Used vehicle prices experienced a swift and significant recovery after April due to new vehicle inventory shortages from stopped production and dealership showroom shutdowns due to COVID-19-related shelter-in-place mandates, resulting in strong
consumer demand for used vehicles. Despite this current trend, however, we expect the new vehicle supply shortage will right-size and used vehicle prices will normalize closer to pre-pandemic levels. The steady increase in new vehicle prices will help to preserve some of the demand for used vehicles as a less costly option. Available vehicles coming off lease have increasingly skewed toward SUVs and pickup trucks, further providing consumers with more affordable options to satisfy their continued preference for these types of vehicles. In addition, the strong credit attributes of the lessees in auto ABS pools, combined with robust vehicle liquidation proceeds, have resulted in low credit losses.

Auto lease ABS ratings will likely remain stable in 2021, barring any further significant auto manufacturer downgrades. Throughout 2018-2019, several auto manufacturers were downgraded for various reasons, but none affected our ratings on auto lease ABS because the manufacturers were able to retain their investment-grade status. However, weaker performance metrics in 2020, especially in light of the pandemic, led S&P Global Ratings to lower its issuer credit rating on Ford Motor Co. to ‘BB+’ (speculative grade). As the rating on an auto manufacturer declines to speculative-grade status, the potential for a bankruptcy (and the relative impact on vehicle residual values) becomes increasingly significant and could have a material negative effect on the rated auto lease ABS. Ford Motor’s downgrade has led to increased residual haircuts under our ABS analysis and resulted in a one-notch downgrade to one class of subordinate ABS notes. We currently have no outstanding rated auto lease ABS for which the related manufacturer is on CreditWatch negative (which indicates the likelihood of a downgrade within 90 days).

Auto lease ABS transactions typically include robust structures with credit enhancement that grows quickly due to deleveraging, providing more credit support as the transaction seasons.
Key Takeaways

- We expect commercial ABS issuance of between $28 billion and $30 billion in 2021, led by captive equipment issuers.
- While payment deferrals varied across commercial equipment issuers in 2020, the current stable performance shows the effectiveness of the responses to mitigating short-term liquidity concerns.
- We expect nondiversified floorplan deal performance to remain stable, with expected losses remaining near zero, primarily due to manufacturer support.

What To Look For Over The Next Year

Commercial ABS issuance volume is expected to increase, with further potential to the upside depending on how fast the economy recovers from the COVID-19 pandemic in 2021. Issuance volume for all four commercial ABS segments (captive equipment, independent equipment, fleet lease, and floorplan) all experienced significant year-over-year declines in 2020 due to the pandemic and its negative impact on economic growth. Commercial ABS issuance volumes fell approximately 40.0% to slightly over $21 billion in 2020 from $35 billion in 2019. The decline was most pronounced in the dealer floorplan and independent equipment segments, which both experienced decreases of slightly above 50% from 2019. It is not surprising that these two segments experienced the largest drops, considering that foot traffic at many dealership lots and small retail businesses came to a complete halt for at least few months due to the shelter-in-place mandates that started in early April.

We forecast commercial ABS issuance to range between $28 billion and $30 billion in 2021, with the potential to surpass $30 billion if positive economic conditions materialize this year. Captive equipment issuers contributed over 40% of total issuance volume in 2020 and experienced only a 15% decrease from 2019. We expect this segment to lead the way again in 2021, driven by issuers such as Dell Financial Services LLC, John Deere Capital Corp., and Hewlett-Packard Financial Services Co. Over the past three years, captive equipment issuers have averaged approximately $10 billion in total issuance volume, and this will likely continue this year, given the importance of the ABS markets to this segment even during the severe economic stress the economy experienced in 2020.

Fleet lease issuance, historically the smallest of the four segments, decreased by 40% to $4.0 billion in 2020. Most fleet lease issuers returned to the ABS markets last year, though some issued fewer deals than in 2019. Enterprise Fleet Financing LLC and Element Fleet Management Corp., both of which led issuance volumes in 2020, each issued one less deal in 2020 compared to 2019. Still, despite the decrease, none of the fleet lease issuers we have spoken to are experiencing significant de-fleeting. Fleet lease issuance has consistently contributed to overall ABS issuance volumes, given the programmatic nature of their issuance, and the ABS markets continue to provide a diversified source of capital to fleet lease issuers. We expect this to continue in 2021.

COVID-19 deferral response

Deferral rates across commercial ABS have slowed and are currently at levels below their highs in April 2020. At the onset of pandemic and the statewide closures, deferrals were offered to customers in order to bridge short-term liquidity concerns. However, given the diverse range of industries and obligor credit quality, the willingness and criteria to grant deferrals were not uniform across commercial equipment ABS.

In pools with larger investment-grade obligors, such as small-ticket technology issuers (e.g., Dell Financial Services and Hewlett-Packard Financial Services) and fleet lease issuers, the use of deferrals was not to the same extent as other segments, such as small-ticket issuers that financed equipment to small businesses with exposure to restaurant, hospitality, and travel. Large-ticket issuers with diversified equipment exposure also offered higher levels of deferrals to their customer base, but the criteria to grant deferrals varied across segments. Some segments focused on identifying those customers that were experiencing a temporary liquidity event rather than taking advantage of some financial companies’
willingness to offer a blanket deferral in April. Issuers went as far as re-underwriting a customer to determine whether a deferral could be granted. On the other end of the spectrum, particularly in the small-ticket segment, the criteria to grant deferrals were not as restrictive.

Commercial ABS issuers’ stable performance in 2020 showed that the deferral response was effective in mitigating short-term liquidity concerns. As a result, we have not lowered any ratings in commercial ABS since the onset of the pandemic.

Asset overview

Commercial ABS encompasses a wide range of industry types, thus the credit drivers are diverse. Still, we expect commercial ABS credit quality to remain generally stable as the economy recovers from the pandemic in 2021.

Agricultural equipment

The agricultural sector remained resilient in 2020 amid the uncertainty from the pandemic. Direct government support continues to assist farmers, and the support was larger given the additional Coronavirus Food Assistance Program (CFAP) and Paycheck Protection Program (PPP). Net farm income according to the U.S. Department of Agriculture is expected to increase slightly to $115.2 billion in 2021, with direct government farm payments reaching $37.2 billion—a 66% increase over 2020. Crop prices are also benefitting from increased demand from China. The Phase One trade agreement that China signed last year commits the country to purchasing $12.5 billion more in agricultural-related products in 2021 than in 2017. Soybeans is one of the segments reaping the benefits, as prices have rebounded to $9.60 per bushel as of October 2020 from lows of $8.60 per bushel for the same period in 2019. Prices for corn and wheat have also rebounded from lows seen earlier in 2020. China’s efforts to rebuild its hog stock after many were culled during the African Swine Fever is also contributing to the country’s increased appetite for soybean and corn products, which are used as hog feed.

The agricultural segment continued to exhibit stable credit performance, despite the COVID-19-related shocks to the economy. ABS issuers with agricultural exposures only provided deferrals at or below 6.0% at the height of the economic stress during second-quarter 2020. We expect credit quality to remain generally stable in 2021 without much ratings volatility.

Trucking

We project truck freight demand to continue its recovery in 2021, improving from the sharp declines experienced due to the COVID-19-related economic stress. Truck loan performance is closely tied to the overall economic activity that drives demand for freight services. In early 2020, we observed higher deferrals and losses for the transportation portion of collateral pools in ABS transactions that we rate compared to other commercial ABS segments. Trucking experienced significant declines in freight demand starting in April, as demonstrated by declines in the ATA Truck Tonnage Index. The recovery in freight demand has fluctuated since then, but spot rates for dry, flatbed, and refrigerated trailers has rebounded considerably from the lows experienced in April. As of December, spot rates per mile for these three trailer types have increased 26%-46% compared to the same period in 2019, based on data from DAT Freight & Analytics. Considering these positive spot rate trends, we believe credit performance should improve in 2021 as the economy recovers.

Construction equipment

The pandemic had an outsized impact on construction in early April as statewide social distancing guidelines led to construction site closures. Deferrals were higher on the construction portion of the collateral pools in our rated ABS transactions. Our 2021 outlook is for stable credit performance as the economy recovers, based on our view of improving trends in construction spending this year and expected GDP growth. Total construction spending through October 2020 increased 3.7% year over year, based on data from the U.S. Census Bureau. However, residential construction recovered the most, with a 14.6% increase, compared to nonresidential construction, which decreased 3.7%. While construction equipment loan performance could suffer if a COVID-19 resurgence leads to slowing GDP growth, the construction equipment segment typically contains a mix of other equipment types that have different credit drivers.
Small-ticket equipment

For the small-ticket equipment segment with exposure primarily to small businesses, our outlook is for credit performance to improve in 2021 from the weak performance experienced in 2020. At the onset of COVID-19 pandemic last April, our expectation was that this segment of commercial equipment ABS would experience the highest levels of deferrals, delinquencies, and losses—and it did. However, our forecast did not include those small-ticket issuers with exposures primarily to investment-grade obligors. The ABS collateral pools for these issuers performed in line with our expectations, primarily because of the strong credit quality of the obligors. Despite our outlook for improved performance in 2021, small-ticket issuers with exposures primarily to small businesses remain susceptible to volatility should a resurgence of COVID-19 result in slower-than-expected economic growth.

Floorplan

Our 2021 outlook for non-diversified floorplan trusts is for stable performance, with losses expected to remain near zero, primarily due to manufacturer support. We view the manufacturer’s financial health, and the dealer’s (as obligor of the floorplan loan), as the key credit factors for this sector. Our outlook is based on our expectation that manufacturers will likely continue to provide significant financial support to dealers and may repurchase inventory upon dealer termination.

Payment rates were significantly affected during the initial months of the statewide closures, which started in April. Foot traffic to dealer lots ceased during this period and payment rates fell significantly in the first few weeks of April. Across rated non-diversified floorplan trusts, payment rates fell to 27.0% in April from 43.0% in March, on average. Since then, payment rates have climbed back to levels averaging just above 65% as of September—a year-over-year average increase of 20 points. Dealers have also recovered, primarily due to the strong demand for new and used vehicles resulting in lower vehicle supply. Auto manufacturers also helped reduced supply by cutting back production levels at the start of the pandemic. These factors have led to strong payment rates and lower inventory levels at dealer lots. In 2021, we believe dealers will continue to efficiently manage inventory levels to maintain payment rates above the amortization trigger levels set in most transaction structures.

For the diversified floorplan, our 2021 outlook is also for stable performance, with losses trending at normalized levels and payment rates above amortization trigger levels. The primary difference between diversified and non-diversified floorplan ABS is the number of manufacturers in each collateral pool. Substantially all of the receivables in non-diversified pools are secured by one or two manufacturers’ vehicles, while diversified pools include three or more manufacturers.

We maintain ratings for one diversified floorplan issuer, NextGear Floorplan Master Owner Trust. Payment rates generally followed the same trend as for non-diversified floorplan, declining to lows in April while recovering strongly since then. Losses in the form of loss-to-liquidation rates also peaked in April but were well below historical highs and have also normalized since then. Diversified floor trusts are benefiting from the same market dynamics as non-diversified floorplan trusts: strong used vehicle values and reduced used vehicle supply.

Our outlook on performance for the floorplan segment in 2021 depends on whether there is a COVID-19 resurgence that cripples the economy. While consumers and dealers made inroads during the early months of the pandemic by utilizing online tools to purchase vehicles, any prolonged statewide closures could impact payments rates and losses for diversified floorplan trusts and payments rates for nondiversified floorplan trusts.
Global Structured Finance Outlook

U.S. | Unsecured Consumer ABS

Key Takeaways
- We forecast declining credit card ABS issuance driven by relative all-in cost of funds in 2021, though credit card ABS performance could normalize to pre-dislocation levels by the second quarter.
- We expect our ratings on personal loan ABS to remain stable, despite uncertainty in the sector. We also expect Verizon annual DPPA volume and the credit performance of DPPA loans and DPPA-backed ABS to remain stable.
- FFELP student loan volume to decrease and the demand for in-school product to persist as education costs increase.

What To Look For Over The Next Year

Credit card ABS
We expect credit card ABS volume of about $10 billion in 2021, which is significantly below the expected maturities of about $35 billion. A key driver of the decline in credit card ABS issuance is programs’ relative all-in cost of funds compared to alternative financing methods.

The $5.2 billion in credit card ABS issuance as of year-end 2020 represents a 78.9% decrease from the $24.7 billion issued in 2019. Excluding cross-border issuance (non-domestic domiciled issuers that transact U.S. dollar credit card ABS in the U.S. market) reveals that domestic volumes totaled $4.2 billion, down 76.8% from $18.1 billion in 2019. This is despite maturities of about $40.2 billion in 2020 ($32.2 billion for bankcard and $8.0 billion for retail private label).

The drop-off in net issuance relative to maturities, which began in 2019 and continued into 2020, largely reflects significant growth in deposits and the less competitive all-in funding cost of credit card ABS compared to unsecured bank debt, inclusive of regulator incentives, in a low interest rate environment. Additionally, bankcard receivables (tracked in our U.S. Bankcard Credit Card Quality Index [CCQI]) as of November 2020 totaled $136.8 billion—a decrease of about 21.4% from the $174.0 billion issued in 2019. Retail private label receivables (tracked in our U.S. Private Label CCQI) totaled $29.4 billion, 16.9% lower than in 2019. Notwithstanding the fall-off in issuance and the net decline in trust receivables, credit card ABS remains an effective and diversified funding source for issuers.

Credit card receivables continue to demonstrate strong credit metrics, such as high seasoning, strong credit scores, and geographic diversification. On average, approximately 97% and 67% of bankcard and retail private label receivables, respectively, are from accounts aged at least five years. About 66% of bankcard receivables are from accounts with FICO scores of at least 720 and only 9% are from accounts with FICO scores of 660 and below. Retail private label trusts, which tend to have a weaker credit profile, had 60% of receivables from accounts with FICO scores above 720 and 10% are from accounts with FICO scores less than 660.

These strong credit metrics, coupled with originators’ forbearance programs and government assistance programs that benefited obligors at the lower end of the credit spectrum, were instrumental to credit card ABS performance, which remains strong despite the market dislocation in 2020. For the 11 months ended November 2020, bankcard average 30-plus-day delinquency and charge-off rates were 1.4% and 2.3%, respectively. Comparatively, retail private label average 30-plus-day delinquency and charge-off rates were 2.7% and 4.3%, respectively, reflecting the difference in credit metrics vis-à-vis bankcards. The three-month average payment rate for bankcard and retail private label remain stable at 31.4% and 20.4%, respectively, while yield also remain stable at 19.1% and 26.6%.

In 2021, we expect normalization of performance to pre-dislocation levels by the second quarter, though we note that a slower labor market resumption could negatively affect collateral performance. Notwithstanding this possibility, our base-case and stressed rating assumptions reflect our view of expected performance during multiple economic scenarios and forecasted economic variables, such as...
unemployment levels and bankruptcy rates. We believe ratings will generally remain stable through the year.

**Personal loan ABS**

While 2020 has been nothing short of a wild ride for the U.S. economy, personal loan ABS performed well as an asset class. The impact of the COVID-19 pandemic on securitization performance continues to unfold, though the expiration of government assistance programs, the phasing out of borrower payment-relief plans, and an elevated national unemployment rate have not resulted in a deterioration in personal loan performance that may have initially been expected. Nonetheless, the sector has suffered fallout, and issuance volume decreased 37% year over year to roughly $9.5 billion from more than $15 billion in 2019. Most of this is attributable to marketplace platforms, such as SoFi (excluding student loan deals), LendingClub, and Prosper, which collectively, saw a 42% decrease in issuance volumes. Branch-based lenders, dominated by OneMain (which actually increased ABS issuance in 2020 versus 2019) but also including Lendmark, Mariner, and Regional Management, saw a 30% decrease in ABS volume last year. As has been the case historically, we expect a 60/40 issuance mix between marketplace and branch-based lenders in 2021, with a combined volume of $10 billion.

Our economists forecast U.S. GDP growth of 3.9% this year, versus a contraction of 4.0% in 2020. We expect a material year-over-year increase in consumer spending to drive this growth, accompanied by an expansion in household debt. Household debt hit a record high of $14.35 trillion in third-quarter 2020, following the first quarter-over-quarter decline in six years in the second quarter. Total personal loan debt (including sales financing debt), which has grown steadily to a peak of $0.43 trillion in first-quarter 2020 from a low of $0.30 trillion in third-quarter 2013, has decreased only slightly over the course of the pandemic to $0.42 trillion. Although absolute household debt is at a record level, aggregate debt as a share of income has been on a downward trend since the Great Recession, when it peaked at about 115%, and it continued to decrease over 2020, reaching a low of just under 80% in the second quarter. In addition to a lower overall debt burden, consumers are relatively better positioned to service debt, with interest rates at all-time lows, which we expect to remain the case over the coming year. Collectively, we believe these factors will support issuance volume in 2021.

Unprecedented levels of income transfer from the federal government and lower consumer spending have eased borrower debt burdens, supporting the ratings stability seen in the personal loan ABS space. All lenders offered additional payment relief plans for borrowers affected by the pandemic, and we observed take-up of these programs peaking in April (as a percentage of receivables portfolios) and steadily declining in the following months. In response to this and the broader economic recovery, lenders gradually phased out these payment relief options, as it was understood that borrowers had less of a need for them. Lenders also quickly responded to the pandemic by tightening underwriting criteria, such as by reducing advances to lower-credit-grade and first-time borrowers. Collectively, this resulted in relatively strong loan performance last year, with no significant elevation in losses. However, it is unclear as to precisely what extent the aforementioned actions supported this performance, and there is some uncertainty regarding the next 12 months as the new, comparatively smaller, federal stimulus package is rolled out while the impact of the termination of the payment relief plans takes effect. Nonetheless, our ratings methodology incorporates incremental deteriorations in losses to account for these (and other unanticipated) circumstances, and we consequently expect our ratings on personal loan ABS to remain stable.

**Mobile handset ABS**

As we enter 2021, Verizon continues to be the only U.S. wireless carrier to issue device payment plan agreement (DPPA)-backed ABS bonds. Since July 2016, the company has completed 13 transactions totaling $17.6 billion. As of December 2020, Verizon’s first four transactions (VZOT 2016-1 to VZOT 2017-2) have been redeemed, and its fifth through seventh transactions (VZOT 2017-3 to VZOT 2018-A) have entered their amortization phases. Its six subsequent transactions (VZOT 2019-1 to VZOT 2020-C) remain in their two-year revolving periods.

Verizon’s three transactions in amortization appear to have thus far weathered the initial phase of the COVID-19 pandemic. These transactions’ pre-pandemic 91-plus-day delinquencies averaged approximately 0.60%. As of July 2020, Delinquencies increased to approximately 1.30%, as the company...
Global Structured Finance Outlook

participated in the Keep America Connected program, pausing collection activities and providing payment relief to obligors. As of September 2020, delinquencies decreased to below pre-pandemic levels as Verizon brought delinquent accounts current, extended loan terms, and resumed its collection efforts. Since the COVID-19 pandemic began in March 2020, the VZOT 2017-1 and 2017-2 transactions were redeemed, similar to the VZOT 2016-1 and 2016-2 transactions.

Verizon’s transactions have relatively short lives of approximately 3.25 years (two years revolving and 15 months in amortization). This is a function of DPPA assets' short term (24-30 months). Collateral performance for these transactions has been very consistent to date, with cumulative losses in its first four deals ranging 2.2%-2.6% of the initial pool balance. S&P Global Ratings has upgraded all classes of Verizon’s first six transactions (VZOT 2016-1 to VZOT 2018-1) to ‘AAA (sf)’ at the conclusion of their revolving periods, based on our lower expected loss for the actual pool versus our expected loss at closing for an assumed pool based on the transactions’ eligibility criteria.

We believe that Verizon will maintain its annual DPPA securitization volume at $4.5 billion in 2021. We also believe the credit performance of the DPPA loans and DPPA-backed ABS bond transactions will remain stable going forward.

Student loan ABS

We forecast student loan ABS issuance of $20 billion in 2021, as many of the fundamentals that drove the increased issuance in 2020 remain in place. We expect less FFELP volume and more private student loans. Although investors typically become more selective during economic downturns, we believe investors’ increased demand during the challenging pandemic-induced conditions seen in 2020 shows confidence in the private student loan lenders that have maintained strong credit profiles for their securitized pools. Even with the potential forgiveness plans for FFELP and Direct Student Loans, we believe there is opportunity for the refinancing products in 2021 and the in-school product will remain in demand as the cost of education continues to increase.

In 2020, overall student loan ABS issuance realized year-over-year growth for the first time in a few years, totaling approximately $19 billion. Originations in the private student loan segment in both the refinance and in-school channels remained strong. As in previous years, not all loan originations find their way into the ABS market, as lenders generally securitize only a portion of their originations. ABS issuance of loans originated under the Federal Family Education Loan Program (FFELP) barely reached $5 billion as its annual downward trend continued.

Once again, Nelnet and Navient were the largest volume issuers in the FFELP space, closing seven transactions for approximately $3.1 billion. We believe the credit quality of FFELP student loan ABS will remain stable due to the U.S. government’s guarantee on the underlying loans. However, COVID-19-related forbearance provided to FFELP borrowers and the potential extension of these borrower benefits will likely exacerbate existing legal final maturity rating concerns and result in liquidity-based downgrades. We continue to monitor the impact of COVID-19-related forbearance and income-based repayment plans through surveillance of the existing transactions. On the opposite side of the spectrum, the results of the presidential election appear to have reenergized the momentum to deliver on student loan forgiveness at some amount. If this plan does find its way to the finish line, it may force rather large prepayments in ABS FFELP transactions.

The top three issuers in the private student loan segment issued 17 transactions totaling $12.5 billion last year. Navient closed nine private student loan deals totaling $6.3 billion, including six refinancings. SMB made more of a presence than usual, with five deals totaling $3.7 billion, and SOFI issued three deals totaling $2.5 billion. After initially spiking earlier in the year, COVID-19-related forbearance decreased considerably, with minimal impact to delinquencies and losses. Even with the effects of the pandemic, investors showed strong interest in private student loan issuance, which increased to slightly under $14 billion from the $8 billion in 2019. We expect the collateral attributes for this segment to be similar or stronger in 2021.
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U.S. | Non-Traditional ABS

Key Takeaways

− Credit performance was mixed in 2020, with certain sectors experiencing severe adverse impact and others being more resilient.

− In 2021, we expect relatively stable ratings performance, stable-to-slightly weaker collateral performance, and a flat-to-moderate increase in new issuance,

− Aircraft lease ABS may remain vulnerable going into 2021; and whole business ABS, quick-service restaurants (QSRs), and fast casual chains, which represent the bulk of restaurant-related WBS issuers, will likely continue to fare better than dine-in restaurants until the pandemic is contained.

What To Look For Over The Next Year

In our baseline scenario, we expect flat-to-moderate increase in new issuance, stable-to-slightly weaker collateral performance, and relatively stable ratings in 2021, compared with 2020.

In our downside scenario, we expect a decrease in overall issuance, weaker collateral performance in certain sectors, and stable-to-slightly weaker ratings performance, especially in the low and below investment-grade rating categories.

Non–traditional ABS volume and performance exhibit wide divergence across asset classes

Overall, non–traditional ABS benefits from a diversified pool of asset classes (see the chart below for a breakdown by total current bond balance), of which certain sectors experienced a severe and adverse impact from the pandemic while others remained resilient in 2020 (discussed in the sections below).

Non–Traditional Assets By Total Current Bond Balance ($115.3 Billion)

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Steady flow of issuance from multiple subsectors expected in 2021

The 249 new issue ratings we assigned in 2020 covered a diverse range of non-traditional sectors including data center, tobacco, triple-net (NNN) lease, and container transactions, demonstrating these sectors’ resilience to the pandemic, despite its severe adverse impact on others such as commercial aircraft and dine-in securitizations. Primary drivers of non-traditional ABS issuance continued to be refinancings of existing securities, advantageous cost of funds, and the entrance of new issuers, particularly in the whole business and NNN lease sectors. While the pandemic halted the issuance of new ABS backed by commercial aircraft, casual dine-in restaurants, and small business loans, we saw a steady flow from the refinancings of tobacco, container, rail, and leveraged funds ABS; TALF II-eligible insurance ABS; timeshare; corporate securitizations of QSRs, automotive service and cleaning and restoration-based businesses; and single-tenant NNN lease-backed transactions, including the growing subsectors of data and fulfillment centers, office, and manufacturing properties, among others.

In our baseline scenario for 2021, we expect continued issuance of whole business, NNN-lease, timeshare, and insurance related ABS. We will likely see some container, rail, and tobacco ABS issuance, albeit at a lower volume than 2020, given the spike in related issuance driven by the refinancing of existing securities. Other potential new issuance could come from gas prepay refinancings, small business, solar, Property Assessed Clean Energy (PACE), and assorted non-financial future flow assets.

Collateral performance varies among sectors

In our 2021 baseline scenario, we expect that a gradual recovery back to pre-COVID-19 levels will contribute to stable and improving collateral performance in most sectors. We have already observed a slowdown in rent deferrals and an improvement in delinquencies in most consumer-related asset classes. On the other hand, with prolonged lockdowns and business closures and the expiration of government stimuli, we could see a longer-term adverse impact on the small-business sector, commercial aircraft lease, mall-based retail and dine-in restaurant-related businesses, and lodging and leisure-related sectors.

Aircraft lease ABS collateral performance to remain vulnerable in 2021

Aircraft lease ABS experienced the most severe impact from the pandemic out of all the asset classes in our rated universe, with 62 downgrades in 2020. Industry reports suggest that 2021 global airline traffic could still be up to 40% lower than in 2019, and that traffic would not return to 2019 levels until 2024. As of the end of 2020, 40% of the total aircraft fleet remained in storage, in-production aircrafts exhibited 5%-20% market value declines, and lease rates are estimated to decline 10%-20% post pandemic.

All of the following metrics can affect aircraft lease ABS collateral performance: deteriorating credit quality of airlines and lessors, longer re-lease periods and lower re-lease rates, and lower aircraft value and recovery, among others. Our air traffic forecast incorporates the most recent quarterly reporting by the leading airlines, suggesting a much slower-than-expected demand recovery and subsequent capacity cuts. Furthermore, our updated assumptions could result in additional rating actions on some airlines, and potentially on some aircraft-leasing companies as well. Nearly all airlines and lessors we rate have negative outlooks, reflecting the weak and uncertain outlook for the aviation sector. Since the onset of the coronavirus outbreak, we have lowered our airline ratings by multiple notches (between one and eight notches), and about two-thirds of those rating are currently at the 'B+' and below rating categories. Aircraft leasing companies suffer indirectly from the woes of their airline customers, but they're generally better positioned to limit damage to their cash flow and liquidity. However, the more prolonged the airline recovery is, the more airline requests for rental deferrals, return of aircraft from bankrupt airlines, and pressure on aircraft values and lease rates are likely to occur. These trends may depress our forecast credit ratios for aircraft leasing companies, pushing some into downgrade territory (see "As COVID-19 Cases Increase, Global Air Traffic Recovery Slows," published Nov. 12, 2020).
Container and rail ABS likely to continue experiencing less adverse impact from the pandemic

Marine container and rail ABS saw no rating transitions since the start of the COVID-19 outbreak, as a result of steady performance in both transportation sectors. On the credit side, delinquencies remained low, as opposed to the high rate of deferrals and early lease terminations seen in aircraft ABS. The utilization rate of physical assets remained high in both sectors. Attrition rates were also low, especially in the marine container sector, where capital expenditures have been limited, and older assets have been kept in service for longer than our base-case assumptions. 2020 saw relatively heavy issuance of 12 container transactions, largely refinances of existing securitizations to lower funding costs. Railcar ABS also benefited from high utilization rates, buoyed by high percentages of long-term leases and low delinquency rates. Weakness was observed in some per-diem leases, but these account for a small portion of pools rated by S&P Global Ratings. The oil and gas market volatility in 2020 did not appear to translate into significant delinquencies or defaults on the railcar leasing side.

For both sectors, we expect capital expenditures and, therefore, funding needs, to be restrained in 2021, with modest ABS issuance.

U.S. whole business securitizations well-positioned for 2021

U.S. whole business securitizations (WBS) saw relatively limited rating migrations in 2020. Despite the same-store-sales hit WBS issuers experienced to varying degrees early in the pandemic, most issuers saw sales rebound rapidly as the initial wave of the pandemic receded and local operating restrictions were lifted. Negative rating actions were limited to notes issued by TGIF Funding LLC and Planet Fitness Master Issuer LLC, the former of which entered the pandemic with already-deteriorating operating performance, and the latter of which faces the potential for lower fitness club membership levels driven by health and safety concerns, in our view (despite demonstrating a robust recovery thus far). Ratings on notes issued by Applebee’s Funding LLC/IHOP Funding LLC and FOCUS Brands Funding LLC were placed on CreditWatch negative in March and April 2020, respectively. The former were ultimately affirmed, while the latter remain on CreditWatch negative.

In our view, the road to recovery for full-service casual dining restaurants remains difficult because of limited indoor dining capacity, which is more relevant as regions experience colder weather and are less able to benefit from outdoor dining. Though many casual dining restaurants have made impressive pivots to off-premise dining, the current global resurgence of COVID-19 cases might reverse or delay some dine-in re-openings.

Nevertheless, we believe that the restaurant industry overall will eventually recover. Consumers will eventually return to food away from home in larger numbers as they tire of home-cooked meals. Additionally, the permanent closure of many independent restaurants leaves significant market share to larger restaurant chains who have the resources to weather temporary closures. QSRs and fast casual chains, which represent the bulk of restaurant-related WBS issuers, will likely continue to fare better than dine-in restaurants until the pandemic is contained because they focus on take-away, delivery, and drive-thru operations. The outlook for many restaurants is still uncertain, but the relative value offering of QSRs also positions them well during times of economic stress.

Small-business loan ABS is likely to remain vulnerable in 2021

Although the COVID-19 pandemic and the related government-mandated closures on businesses and social distancing measures has severely affected many small businesses, securitization performance has generally remained stable. Securitizations collateralized by SBA 7(a) loans benefitted directly from the government support package, which covered principal, interest, and fees on SBA loans from April through September. As a result, there has been no impact to date on SBA 7(a)-backed transactions, with two downgrades on non-SBA 7(a) transactions.

We expect to see an increase in delinquencies as the pandemic persists and businesses deplete available liquidity. Transactions with more significant exposure to harder-hit industries—such as lodging, restaurants, retail, and entertainment—may see a spike in delinquencies and defaults or bankruptcies. However, another possible stimulus package would provide additional relief to borrowers and mitigate...
some of this risk. Structural features, including liquidity reserves and performance triggers to redirect cash flows to pay down the notes in sequential order, may also partially mitigate these risks. Securitizations backed by conventional loans secured by commercial real estate generally have low pool factors of between 2% and 15%. These transactions have seen an increase in delinquencies over the last six to eight months. However, the senior tranches generally benefit from overcollateralization and/or reserves.

**Well-diversified single-tenant NNN lease ABS to remain resilient in 2021**

We believe that single-tenant NNN lease transactions, backed by diversified retail-focused commercial real estate and leases, are likely to remain resilient in 2021, despite the likelihood of continued economic stress. Though some property managers experienced significant drops in rent collections and debt-service coverage (DSCR) levels early in the pandemic, we saw both rebound quickly across our rated transactions. We placed 29 ratings from six NNN transactions on CreditWatch negative in early May, based on observed DSCR declines and concerns about tenants’ ability to operate their businesses and pay rent. Following a robust recovery in DSCRs, better clarity on the operating status of tenants, and the results of additional S&P Global Ratings cash flow sensitivity tests demonstrating transaction resilience, we affirmed all 29 ratings and removed them from CreditWatch negative in July. Though some categories of tenants, such as casual dining restaurants, may face continued headwinds as the pandemic continues, we believe the diverse mix of tenants, geographies, and industries in NNN ABS property portfolios will allow transaction performance to remain stable even as stressed economic conditions remain.

We rated four series of new issue NNN ABS in 2020. Two of these, backed by automotive dealer properties, were from repeat issuer, Capital Automotive LLC (CARS). Another, backed by a diversified mix of retail, office, and industrial properties, was from a new issuer, Oak Street Real Estate Capital LLC (Oak Street). This was the first time office and industrial properties appeared in a diversified NNN ABS pool we rated. The fourth, backed by a pool of single-tenant industrial distribution and fulfillment centers leased to subsidiaries of Amazon.com Inc., came from first time issuer, CF Hippolyta Investor LLC, an indirect subsidiary of various funds managed by affiliates of Fortress Investment Group LLC (Fortress). This transaction was the first NNN ABS issuance we have rated backed by industrial logistics properties. Altogether, we believe the Oak Street and Fortress transactions represent the continuing evolution of the NNN ABS space, which has attracted investors looking for stable, long-term assets and issuers looking for new ways to finance their real estate assets for longer tenors in the current low-rate environment. We expect continued growth in NNN ABS issuance, encompassing various mixes of property types, in 2021.

Finally, we rated six series of new issue data center-backed ABS in 2020. Though the leases were not all necessarily NNN (some were modified gross) and the properties were not generally single-tenant, we believe the assets share a number of key risk factors with NNN ABS, and thus rated them using a modified version of our NNN criteria. Given the average high credit quality of the tenants and the mission-critical nature of the data center infrastructure to those tenants, data center ABS rated by S&P Global Ratings saw strong, steady performance since the start of the pandemic, with no material interruption in rent collections. We anticipate likely continued growth in wholesale data center-backed ABS issuance in 2021, driven in part by the continued growth in demand for cloud services, which, in turn, has been driven by the soaring demand for computational resources to support the growth in remote work.

**Timeshare ABS has been resilient, but travel restrictions could affect performance**

In the second and third quarters of 2020, the timeshare sector experienced a spike in requests for deferrals and increased delinquencies due to the impact of COVID-19 containment measures. Since then, we have observed a significant slowdown in this trend, primarily because of the pickup in bookings and occupancy at drive-to destinations, as well as the ability to “bank” points to satisfy future pent-up demand for vacations. We believe securitizations’ available liquidity in the form of excess spread and a reserve account is generally sufficient to absorb a temporary reduction in cash flow due to an increase in delinquencies. As such, the performance of timeshare transactions have been stable through 2020, with no rating actions to date.

In 2020, we increased our base-case assumption for defaults to reflect the continued strain in the lodging sector and to incorporate the weakened U.S. economic outlook. Additionally, we added sensitivity
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scenarios into our rating processes to test transactions for near-term liquidity and longer-term credit stability. We rated five new timeshare issuances from repeat issuers in 2020, slightly down from prior years.

With leisure travel and drive-to timeshare destinations driving the recovery, we believe the sector will have stable performance in 2021. Timeshare companies could restore credit metrics by late 2021 or early 2022, if a vaccine gains distribution by mid-2021 and leads to a rebound in timeshare sales. Companies with exposure to destination markets may experience a slower sales recovery, compared with those that have more exposure to drive-to markets. We believe new issuances in the first half of 2021 will likely remain weak due to lower timeshare originations and reduced available inventory. Issuance would likely strengthen in the latter half of 2021 as the economy opens up.

Insurance premium-backed securitizations to remain stable in 2021

Insurance premium-backed transactions saw stable performance through 2020, albeit with a slight increase in policy cancellation rates and delinquencies. Given that these transactions are TALF-eligible, issuance in 2020 was robust. Contrasted with some of the other ABS sectors, insurance premium originations see an increase as economic conditions worsen since more individuals are likely to look to finance their obligations. As such, we expect issuance and performance to remain stable in 2021.

Tobacco settlement ABS to remain resilient in 2021

We maintain our outlook on tobacco consumption decline in the low- to mid-single-digit percentage pace into 2021 as the pandemic has not caused a significant negative shift in the sector. However, consumption trends could deteriorate if there is a change in consumer behavior stemming from health concerns around smoking and vulnerability to COVID-19 (which we have not seen to date on any large scale), or if tobacco users' disposable incomes fall because of a protracted downturn accompanied by high unemployment due to the pandemic. Also, we continue to monitor the development on the ban on menthol in cigarettes (which is beginning to be effectuated in several states) or reduced nicotine content in cigarettes to minimally or non-addictive levels (which we believe could occur over the next 10-15 years). We have not seen the once-expected growth explosion of electronic cigarettes, given the potential for lingering consumer doubts following the occurrence of lung illnesses. We typically include sensitivity scenarios in our cash flow runs designed to test the transaction's tolerance to event risks such as a menthol ban, tax increases, and new product replacement.

Ratings to remain relatively stable in most sectors in 2021

We expect securitization volume may be flat in 2021. Although demand for liquidity will likely be high among borrowers, we believe some SBA 7(a) lenders may exercise additional caution and limit lending in high-risk sectors to exceptionally strong borrowers.

In 2020, we reviewed approximately 1,400 S&P Global Ratings' credit ratings outstanding in the non-traditional ABS sector, of which we placed 120 on CreditWatch negative due to COVID-19-related uncertainties. We resolved the majority of our COVID-19-related CreditWatch placements. In addition, we performed over 100 downgrades, mostly concentrated in the aircraft sector, and nearly 300 affirmations over the course of the year.
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Non-Traditional ABS Rating Actions in 2020

<table>
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<tr>
<th></th>
<th>Small business loan</th>
<th>Aircraft</th>
<th>Timeshare</th>
<th>Triple-net lease</th>
<th>Whole business</th>
<th>Tobacco settlement</th>
<th>Container</th>
<th>Railcar</th>
<th>Data center</th>
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<th>Leveraged fund</th>
<th>Gas prepay</th>
<th>Structured settlements</th>
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These rating actions reflect additional sensitivity scenarios, besides our ratings stresses, which incorporated COVID-19-related factors, including liquidity stresses, recovery haircuts, higher default rates, prolonged re-lease times, and lower lease rates, among others. We also observe that issuers propose more robust structures for new issue transactions relative to pre-COVID-19 to mitigate potential adverse effect. Higher liquidity reserves, lower loan-to-value ratios (LTVs), tighter performance triggers, and higher credit quality obligors in pools are examples of structural features that issuers offer to mitigate potential adverse impact from deferrals and prolonged lockdown and business closures. Nevertheless, certain sectors could face a lagged impact on performance, mainly due to short term benefits from various stimulus packages, payment waivers, and deferrals. Specifically, we may see a longer-term adverse impact in the small business sector in 2021, in which government support expired in September 2020. As a result of our recent surveillance reviews and resulting rating actions on outstanding transactions and more robust structural features offered by issuers on new issue transactions, we believe that our ratings on most of the subsectors should remain relatively stable in 2021 in our baseline scenarios.
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U.S. | ABCP Muni-Structured

Key Takeaways

- U.S. ABCP paper outstanding to remain stable or increase moderately to $255 billion to $260 billion in 2021.
- U.S. ABCP sector and rating performance trend to remain stable, while we continue to expect somewhat weaker collateral performance.
- We expect VRDO issuance to remain largely at 2020 levels despite historically low rates.

What To Look For Over The Next Year

We are forecasting U.S. asset-backed commercial paper (ABCP) outstanding to remain stable or increase moderately to $255 billion to $260 billion in 2021, from $256.3 billion as of Dec. 30, 2020. While ongoing market uncertainties, slower recovery in U.S. consumer spending, a low interest rate environment, and robust levels of bank deposits held by banks relative to loans continue to dampen growth in this asset type, we expect issuances from recently launched programs and modest growth from new sellers to contribute to the increase in ABCP outstanding. We rated ABCP issued by six new programs and withdrew ratings on ABCP issued by four programs during 2020.

Despite the broad global impact of the pandemic on structured finance markets, the U.S. ABCP sector and rating performance trend remains stable, while we continue to expect somewhat weaker collateral performance. The stable rating performance continues to be supported by high investment-grade ratings on banks and nonbank institutions providing liquidity support to the U.S. ABCP programs. This includes 83% of fully supported programs and fully supported transactions funded in partially supported programs and 17% for the partially supported programs. More than a third of banks and nonbank financial institutions have a negative outlook (see "North American Financial Institutions Monitor 4Q 2020: Finding some respite in the COVID-19 Storm," published Oct. 22, 2020). However, we expect stable ratings for U.S. ABCP based on the aforementioned high investment-grade ratings on bank sponsors and in-depth experience of nonbank sponsors.

We currently rate ABCP issued by 49 programs in the U.S. Of these, six are rated 'A-1+' and 43 are rated 'A-1'. None of the liquidity providers supporting these programs are on CreditWatch negative, and a one-notch rating movement may not necessarily lead to a change to the short-term rating, based on our linking methodology (see "Methodology For Linking Long-Term And Short-Term Ratings," published April 7, 2017). In addition, 12 programs are supported by liquidity providers that have a negative outlook and are rated 'A/A-1', accounting for approximately 24% of the total ABCP programs. Finally, partially supported programs fund a diversified pool of assets, such as subprime autos, dealer floorplan, trade, etc. Although their exposure to collateral has been more affected by the pandemic than other programs, they comprise a relatively small percentage (less than 4%) (see table below, which compares pre-and post-pandemic exposure).
### Global Structured Finance Outlook

#### ABCP Exposure

<table>
<thead>
<tr>
<th>ABCP Exposure</th>
<th>February 2020</th>
<th>August 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Investment (mil. $)</strong></td>
<td><strong>%</strong></td>
<td><strong>Net Investment (mil. $)</strong></td>
</tr>
<tr>
<td>Partially supported assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Autos</td>
<td>19,935.07</td>
<td>9.24</td>
</tr>
<tr>
<td>Prime auto loans</td>
<td>9,863.50</td>
<td>4.57</td>
</tr>
<tr>
<td>Nonprime auto loans</td>
<td>12.71</td>
<td>0.01</td>
</tr>
<tr>
<td>Subprime auto loans</td>
<td>3,862.22</td>
<td>1.79</td>
</tr>
<tr>
<td>Auto leases</td>
<td>3,910.97</td>
<td>1.81</td>
</tr>
<tr>
<td>Prime/nonprime/subprime auto loans(i)</td>
<td>2,285.67</td>
<td>1.06</td>
</tr>
<tr>
<td>Student loans</td>
<td>4,566.84</td>
<td>2.12</td>
</tr>
<tr>
<td>Private student loans</td>
<td>2,790.52</td>
<td>1.29</td>
</tr>
<tr>
<td>FFELP Student Loans</td>
<td>1,776.32</td>
<td>0.82</td>
</tr>
<tr>
<td>Credit cards</td>
<td>2,586.60</td>
<td>1.20</td>
</tr>
<tr>
<td>Bank cards</td>
<td>2,261.02</td>
<td>1.05</td>
</tr>
<tr>
<td>Retail cards</td>
<td>325.58</td>
<td>0.15</td>
</tr>
<tr>
<td>Equipment and commercial other(ii)</td>
<td>2,669.87</td>
<td>1.24</td>
</tr>
<tr>
<td>Dealer floorplan</td>
<td>2,204.90</td>
<td>1.02</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1,809.66</td>
<td>0.84</td>
</tr>
<tr>
<td>Consumer-other</td>
<td>1,744.74</td>
<td>0.81</td>
</tr>
<tr>
<td>Mobile handset loans</td>
<td>1,191.45</td>
<td>0.55</td>
</tr>
<tr>
<td>Unsecured consumer loans</td>
<td>553.29</td>
<td>0.26</td>
</tr>
<tr>
<td>Fully supported(iii)</td>
<td>180,299.48</td>
<td>83.54</td>
</tr>
<tr>
<td>Fully supported in partially supported conduits</td>
<td>21,134.35</td>
<td>9.79</td>
</tr>
<tr>
<td>Fully supported conduits</td>
<td>159,165.14</td>
<td>73.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>215,817.17</td>
<td>100</td>
</tr>
</tbody>
</table>

(i) Prime/nonprime/subprime category used where all three assets may be funded.
(ii) Commercial Other includes commercial fleet leases, future flow, CDO, insurance premium, and manufactured.
(iii) Fully supported transactions (exposure directly related to bank counterparty).

For ABS in 2021, we continue to expect a stable rating performance for the majority of assets funded in the ABCP programs. For subprime auto loan ABS, speculative-grade classes are more vulnerable to a downgrade given the lower credit enhancement and longer time to maturity. In ABCP programs, liquidity covers credit risk in fully supported programs, which are in the high investment-grade rating category ('A-1' or higher). ABCP issued by partially supported programs that we rate are also in the high investment-grade rating category; thus, credit enhancement is commensurate with the high credit spectrum. While certain assets such as trade, autos, and equipment exhibited weakened performance with higher delinquencies and losses, which led to structural amendments, loss coverage multiples remain robust. Subprime auto loans comprise a small percentage of net investment (approximately 2% as of August 2020), and credit enhancement is commensurate at an ‘A-1’ or higher level. In addition, partially supported programs benefit from a fungible layer of program-wide support or funding of the asset on the liquidity bank’s balance sheet.

The LIBOR phase-out by the end of 2021 will have minimal impact on ABCP issuance, as the majority of ABCP is not indexed to LIBOR and fallback language is included in the program and transaction documents. However, ABCP issuance may benefit with the commercial paper (CP) rate being widely accepted in the market as participants explore alternative reference rates to LIBOR. Interest in environmental, social, and governance (ESG)-compliant ABCP issuances continues. However, it is still at early stages of evolution.
Global Structured Finance Outlook

Muni-Structured

Variable-rate debt obligations (VRDOs) weather the storm in 2020

We expect 2020 year-end VRDO/letter of credit (LOC) CP issuance of approximately $4.4 billion, down from 2019’s $6.8 billion. This total par comprises issuance across four main product types: jointly supported issues, standby bond purchase agreement “liquidity-backed” issues, single LOC support, and LOC-backed CP (such products provided by banks are considered third-party enhancement). While down from previous years, this was in line with our 2020 expectations despite the pandemic. Housing and health care once again remained the leading sectors utilizing VRDO issuance, with approximate issuance of $645 million and $585 million, respectively.

We saw very few rating actions on VRDOs in 2020, with the few notable exceptions, Swede Bank and HSBC USA, seeing downgrades for non-COVID-19-related reasons. Most of the rating actions seen were on utility backed joint-support issues, where the rating on the corporate obligor was lowered. Overall, our VRDO-rated portfolio continued to remain strong in 2020 as the short-term ratings on the banks that provide third-party enhancement remained in the two highest short-term categories.

2020 VRDO Issuance Sectors (Joint/Liquidity-Backed)

Wait and see: the end of the wild ride known as COVID-19?

The pandemic certainly had a negative impact on the overall economy, and VRDOs and third-party enhancement were not immune. However, for 2021, we expect issuance to remain consistent to lower than this year’s levels, based on the following factors:

- The SIFMA Swap Index, VRDO’s benchmark rate, had a COVID-19-driven wild ride in 2020. It shot to levels not seen since 2008, but then just as rapidly dropped to 2016 levels, where it stayed for the remainder the year.
- While low rates could make VRDO financing attractive for issuers, the fundamental cost effectiveness of low rate taxable issuance has remained unchanged since last year. We expect that trend to continue into 2021.
- Current advance refunding regulations are not allowing issuers to capitalize on low variable rates to pre-refund existing debt, leading them to choosing other routes to manage higher-rated older debt.
- The COVID-19 pandemic continues to drive uncertainty for issuers, as they, much like the rest of the world, wait on the results of vaccines and other mitigation efforts.
Regarding asset performance, when considering VRDO credit quality, we must always consider factors underlying bank credit quality. As presented previously, the outlook for banking is of course not immune from the pandemic, but our research shows that U.S. financial institutions have remained resilient (see “Earnings Among Large U.S. Banks Rebounded In Third Quarter, But Uncertainty Remains High,” published Nov. 17, 2020). Moreover, tax policy, particularly advance refunding reform, is top of mind for many muni issuers. As noted in our publication, “The Post-Election Landscape for U.S. Public Finance,” published Nov. 18, 2020, reinstatement of tax-exempt advance refundings would be a benefit to governments. Their elimination, as part of the Tax Cuts and Jobs Act (the Act), resulted in more limited refunding options, thereby reducing budgetary flexibility. This has, in turn, led to a reduction in third-party enhanced transactions. While we do not maintain statistics for the number of third-party enhanced transactions that are based on a refunding, we can say with relative certainty that the Act has had a domino effect on the number of third-party enhanced transactions. We will continue to monitor the impact of the pandemic and the sunset of the municipal liquidity facility (MLF) on VRDO issuance and update our research accordingly as 2021 progresses.

Bright spots of 2020: LOC-backed commercial paper and LOC/SBPA providers

While not strictly a VRDO, we rate LOC-backed commercial paper (LOC CP) under the same LOC criteria we apply to VRDOs, and therefore survey these issues together as well. Likely buoyed by the Fed’s CP Funding Facility that is willing to consider LOC-backed CP, the product saw large new issuances in 2020, particularly in the area of airport finance. We’ve seen a variety of older programs reissue as 2020 notes as well, with adjusted program sizes. We expect to continue to see this trend in the year ahead.

There was also some movement in the list of top LOC/SBPA providers in our rated portfolio, with TD Bank N.A. moving to the top. We’ve seen a sizable number of credit support substitutions on existing issues to TD bank, including a few conversions from direct purchase and fixed-rate modes to weekly floating-rate modes supported by TD Bank. While we don’t expect a sizable trend to materialize, we do expect TD to remain a strong presence in this area.

Tender option bonds (TOBs)

Due to COVID-19, new issuance of TOBs dramatically decreased in early 2020. However, with the ongoing economic recovery, TOB issuance has mostly adjusted and returned to expected levels for annual volume.

Tender Option Bond New Issuance And Surveillance Statistics

<table>
<thead>
<tr>
<th></th>
<th>2019 YTD</th>
<th>2020 YTD</th>
<th>Change YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>New ratings</td>
<td>718</td>
<td>575</td>
<td>(19.92%)</td>
</tr>
<tr>
<td>New transactions</td>
<td>302</td>
<td>288</td>
<td>(4.64%)</td>
</tr>
<tr>
<td>New issued par</td>
<td>US$7,555,342</td>
<td>US$7,734,040</td>
<td>2.37%</td>
</tr>
<tr>
<td>New program reviews</td>
<td>2</td>
<td>6</td>
<td>200.00%</td>
</tr>
<tr>
<td>Surveillance rating actions</td>
<td>198</td>
<td>581</td>
<td>193.43%</td>
</tr>
</tbody>
</table>

YTD—Year to date. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor’s Financial Services LLC. All rights reserved.

Across all transaction metrics, TOB new issuance has decreased over 2019 reports as of December 2020. We issued new ratings on 288 TOB transactions containing 575 unique receipt ratings, representing a decrease from 2019 of 4.64% and 19.92%, respectively. These transactions also included six new program reviews of transaction structures supported by Mizuho Bank Ltd. and Bank of America N.A. Total TOB new issuance par reached $7.73 billion in 2020, a 2.37% uptick over the $7.56 billion issued in 2019. Given this change and the current economic conditions, we anticipate similar volume in 2021, with potential room for growth to $8 billion in new issuance par.

We currently maintain 3,248 ratings in our TOB portfolio, with a total par value of approximately $33.40 billion. We processed 581 TOB surveillance rating actions during the year, with 92.61% related to the pandemic and primarily reflecting downgrades and CreditWatch placements. Those rating actions were preceded largely by rating actions in the U.S. public finance transportation, utilities, health care, and local government sectors due to significant and growing operational and financial impacts from the pandemic.
Additionally, only 76.16% of the trust (representing 79.84% of the total par amount) rated in 2019 remain outstanding as of the end of 2020. We anticipate our outlook on TOBs to remain negative in the near future, as TOBs are exposed to the credit quality of the underlying municipal bonds and of the banks providing liquidity and credit support. Currently, all of our U.S. public finance sectors have a negative outlook; Barclays Bank PLC, which provides liquidity support to 13.81% of the TOB transactions in our rated portfolio, also has a negative outlook.

**COVID-19-Related Surveillance Rating Actions**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rating Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>17%</td>
</tr>
<tr>
<td>Utilities</td>
<td>15%</td>
</tr>
<tr>
<td>Local government</td>
<td>12%</td>
</tr>
<tr>
<td>Health</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Non-COVID-19-Related Surveillance Rating Actions**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rating Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>51%</td>
</tr>
<tr>
<td>Utilities</td>
<td>26%</td>
</tr>
<tr>
<td>Local government</td>
<td>19%</td>
</tr>
<tr>
<td>Health</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: S&P Global Ratings. 
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**Referenced Repackaged Securities (RRS)**

The volume of RRS has seen an uptick in volume in 2020. Total RRS new issuance increased to $232.22 million from $45.00 million. This was due to a $184.80 million CDO repack issuance in the third quarter of 2020; otherwise, volume remained relatively stable around $46 million. We expect to see the same or a slight increase in 2021 issuance as the market continues to find ways to get higher yield in a low interest rate environment. There was an increase in rating actions (up 83% to 79 from 43) taken in 2020 due to the pandemic’s impact on the underlying transaction ratings. The most-affected ratings were on repacks from the retail and transportation sectors, and we would expect these to remain vulnerable in 2021 due to ongoing uncertainties related to the pandemic.

We currently maintain ratings on approximately 111 issues, which has a total par value of approximately $10.16 billion.
Global Structured Finance Outlook

U.S. | CLO

Key Takeaways

- By year-end 2020, we lowered our ratings on more than 475 U.S. CLO classes (about 11% of our total outstanding book). Of these downgrades, 77% were taken on speculative-grade CLO ratings, and 64% were one-notch downgrades.

- In 2021, barring another wave of corporate downgrades, which doesn’t seem likely, we believe that further CLO CreditWatch placements and downgrades will likely be sporadic and take place based on the performance of individual CLO transactions rather than larger-scale CLO rating actions.

- Spread tightening and continued strong investment demand are two factors leading us to expect $100 billion in 2021 new issuance, up about 10% versus 2020’s level.

What To Look For Over The Next Year

For now, the market’s outlook for U.S. CLO transactions in 2021 has become decidedly bullish. CLO note spreads tightened considerably in the second half of 2020, and by year end the all-important ‘AAA’ tranche spread for some new issue CLOs had come in to as tight as 120 basis points over LIBOR—tighter than where they had been in early 2020 before the pandemic. This reflects strong investor demand for the notes, and many market participants think there likely will be more spread tightening during 2021. As a result, we expect robust new issue CLO volumes in 2021, with about $100 billion of new issue U.S. CLOs pricing during the year, and CLO refinancings and resets could see large volumes as well. The $100 billion forecast for new issue CLOs compares with $129 billion in 2018 (an all-time record volume for U.S. CLO new issuance) and $118 billion in 2019. For 2020, after dropping sharply in the second quarter, CLO issuance rebounded strongly in the second half of the year to $90 billion in new issuance and setting the market up for a strong 2021.

COVID-19 caused a large spike in negative rating actions in 2020

The arrival of the pandemic and related shutdowns in early 2020 presented significant challenges to many of the speculative-grade companies with loans in U.S. CLO transactions. With some companies in the most affected sectors facing the prospect of a second quarter with zero revenue, negative rating actions came swiftly. In late March and early April, corporate ratings saw over a few weeks a level of CreditWatch placements and downgrades similar to the levels seen over the course of the entire Global Financial Crisis in 2008-2009.

It wasn’t long before the effects were felt in CLO collateral pools, which saw ‘CCC’ buckets increase to a peak of more than 12% by late April from roughly 4% in February (prior to the COVID-19 corporate downgrades), and the proportion of obligor ratings in CLO collateral pools on CreditWatch negative increase to more than 10% from less than 2%. By the middle of 2020, nearly a third of all corporate ratings within U.S. CLO collateral pools had seen a downgrade, and about a quarter of reinvesting U.S. BSL CLO transactions were failing one or more overcollateralization (O/C) tests.

Issuance

<table>
<thead>
<tr>
<th></th>
<th>2019a</th>
<th>2020</th>
<th>2021f</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ billion</td>
<td>$118</td>
<td>$92</td>
<td>$100</td>
</tr>
</tbody>
</table>

LL Default Rates

<table>
<thead>
<tr>
<th></th>
<th>SEP19</th>
<th>SEP20</th>
<th>SEP21f</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6%</td>
<td>4.6%</td>
<td>6.4%</td>
<td></td>
</tr>
</tbody>
</table>

Issuance — $ billion.
a—Actual, f—Forecast.
Unsurprisingly, this wave of corporate rating actions was followed by a wave of CLO rating actions, first with CLO rating CreditWatch placements in the first and second quarters, and then downgrades in the third quarter. By year-end 2020, we lowered our ratings on more than 475 U.S. CLO classes, or just about 11% of our total outstanding book. Of these downgrades, 77% were taken on speculative-grade CLO ratings, and 64% were one-notch downgrades. Looking forward, we believe that further CLO CreditWatch placements and downgrades will likely be sporadic and take place based on the performance of individual CLO transactions rather than larger-scale CLO rating actions. This could change if there were another wave of negative actions on corporate ratings (which doesn’t seem too likely, given the number of corporate ratings lowered in spring 2020), or if the rate of payment defaults on corporate loan issuers exceeds our expectations.
Key Takeaways

- The low interest rate environment will continue to drive originations, especially in the purchase market.
- Majority of growth to come from prime/conforming sector.
- Home-price appreciation expected to soften, though it will remain positive and help cushion the impact of defaults that arise from loans falling out of forbearance.

What To Look For Over The Next Year

The 2021 outlook for U.S. RMBS has three key underlying themes: a soft landing for home-price appreciation, the resolution effects of COVID-19 forbearance plans, and moderately high residential mortgage originations in the U.S. buoyed by low mortgage rates. Despite pessimism in late spring/early summer when the pandemic started, home price appreciation was strong throughout the second half of 2020, driven by demand for housing that would accommodate both productivity and lifestyle.

While the Case-Schiller Index was up 8.4% year over year as of October 2020, our economists project appreciation of 3.0% for 2021—still positive, but lower than last year. The first half of 2021 will mark a turning point in terms of mortgage credit, in that certain borrowers that ended up on 12-month forbearance during 2020 will exit those plans with some sort of resolution (e.g., reinstatement or deferral). A portion of these borrowers will ultimately represent defaults. The good news is that the limited supply of residential housing and the generally strong equity positions may soften the adverse effect that these losses have on the borrowers and the securitizations. While 2020 was a banner year for residential mortgage origination in the U.S. (approximately $4 trillion), 2021 may not be too far behind (Fannie Mae projects over $3 trillion in 2021) as mortgage rates continue to sit at historically low levels. Low rates will also contribute to housing affordability.

There was a 10% drop in year-over-year non-agency RMBS issuance in 2020 (finishing at roughly $115 billion versus roughly $125 billion in 2019) due to the pandemic. We expect the aforementioned factors to contribute to approximately $130 billion of issuance in 2021, broken out in the chart below by subsector.
Non-QM sector experienced biggest shock in 2020, but could return to 2019 levels

The non-qualified mortgage (non-QM) sector experienced the biggest shock in the spring of 2020 as originations largely halted. This resulted in a drop in non-QM issuance for the year compared to 2019. However, we expect roughly $25 billion of non-QM issuance in 2021, the same as 2019. This accounts for our expectation that originations will pick up in a strong purchase loan market and that agency refinance activity will gradually fall over time. We also believe that older non-QM securitization clean-up calls could contribute to more issuance in the low interest rate environment.

CRT transactions to experience modest growth

We expect modest growth in credit risk transfer (CRT) transactions, driven by high mortgage origination volumes (albeit lower than those of 2020), but tempered by the still unclear picture of the impact of recent government-sponsored entity (GSE) capital rule changes regarding CRT issuance. As a byproduct of CRT and agency mortgage originations, mortgage insurance (MI) CRT is also expected to contribute several billion dollars to issuance projections, as high LTV purchase loan activity picks up; although, we are uncertain about the consistency of the pace of issuance.

Prime/conforming sector projected to lead overall RMBS growth

The largest contributor to RMBS issuance growth is projected to be in the prime/conforming sector, which we categorize as including both prime jumbo mortgages and agency-eligible loans delivered into private-label securitizations. There is a compounding effect when agency-eligible loans flow into private-label securitizations. Typically, the loan balances are equivalent to the issued security amount in the private-label space, whereas if an agency-eligible loan collateralizes a CRT, then only a small percentage of the loan balance is represented in the issued security amount. Moreover, recently announced QM rule changes could contribute to a boost in non-agency issuance. In any case, low mortgage rates should create jumbo origination volumes that may continue consistently into 2021, while agency refinance activity fades a bit.

For the “other” category (which includes mortgage securitization types such as reperforming, non-performing, servicer advance, single-family rental, and reverse mortgage), we are projecting similar issuance levels to those of 2020. While some of these subsectors may see a decline in volumes, others may experience growth due to COVID-19-related delinquencies/forbearances that end up in a reperforming/non-performing state.
Key Takeaways

- Overall delinquency and forbearance rates have stabilized (but remain elevated) at between 7% and 8% apiece after peaking in mid-2020.
- Retail and lodging continue to account for the majority of delinquent loans and those in, or requesting, forbearance. In 2021, we will be watching for signs of increasing delinquency within the office and multifamily sectors.
- We project $70 billion in 2021 new issuance, with roughly an even split between conduits and single-asset single-borrower (SASB)/other transactions, up from $53 billion in 2020.

What To Look For Over The Next Year

We expect $70 billion in private-label U.S. CMBS issuance in 2021 (not including commercial real estate [CRE] CLOs), which was down roughly 45% year over year to $53 billion in 2020.

SASB sector to account for a little less than half of transaction volume

The SASB sector should continue to account for a little less than half of transaction volume, similar to recent prior year splits. CRE, and CMBS by extension, has been the sector most directly affected by the pandemic and government-imposed containment measures. While issuance started the year at a strong pace, it quickly ground to a halt in April and did not pick up pace until the third quarter and then again leading up to the November elections. Clearly, its reemergence was aided by more stringent underwriting, reduced exposure to full-service lodging and nonessential retail, more frequent use of debt service reserves, and strong investor demand. The SASB sector should continue to benefit from the financing of large loans on institutional quality properties from well-capitalized sponsors. The conduit sector should also benefit from the ever-growing portion of large pari passu loans; though the headwind of aggregating a critical mass of loans, due to tougher lending standards and reduced acquisition financing, will continue to challenge pool effective loan count metrics.

Potential pockets of credit distress in real estate/multifamily could spread

Accounting for about $4.7 trillion of outstanding debt according to the latest available Federal Reserve data, the U.S. commercial real estate/multifamily sector, for reasons we noted above, has garnered an increasing amount of attention during the pandemic. We believe this is largely due to current pockets of credit distress—namely selected areas of the retail and lodging subsectors—and then the potential for the distress to spread to other areas of the market. Indeed, there is some debate about the future performance of office markets, especially in densely populated gateway cities, and how certain urban multifamily markets will perform if there is a longer-term population shift away from those cities. A little over half of outstanding CRE/multifamily debt is held by banks, with another 13% at insurance companies. Most of the remaining third (roughly) is held by CMBS/agency CMBS (about 17%), GSE balance sheets (8%), REITs/financial companies (5%), and pension/retirement accounts (1%). The potential for a pullback by banks and insurance companies due to the outlook uncertainties for CRE, coupled with a reduced agency lending footprint in 2021, as outlined in recent FHFA guidelines, may perhaps increase the share of private-label CMBS issuance.

Credit performance across property types remains a question

On the performance side, as of December 2020, the overall CMBS delinquency rate was around 7.0%, with uneven credit performance by property type. The chart below shows that the lodging late payment rate reached a recent peak over 20%, and now sits at around 18.7%, while retail stands at around 12.2%. The other three major areas—office, multifamily, and industrial—remain below 2.2%. Though the overall delinquency rate is down, the share of delinquent loans that are 60-plus days is 87.5%. Furthermore, the loans that are 120-plus-days account for 42.2% of all delinquent loans. Beyond the delinquency rate, an additional 7.5% of loans can be classified as either in forbearance or current requesting forbearance relief.
and over 86% of that is attributed to lodging/retail backed loans.

### CMBS Delinquency Rate By Major Property Type

![CMBS Delinquency Rate By Major Property Type](chart)

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Interestingly, there has been some recent improvement in the overall delinquency (and forbearance) rates, even within the lodging and retail sectors. We note from our corporate REIT colleagues that rent collection across retail REITs have sequentially improved as stores reopened, with retail REITs collecting over 80% of rent compared to depressed levels in the second quarter, and other sectors have been relatively steady.

### REITs Cash Rent Collections By Sector

![REITs Cash Rent Collections By Sector](chart)

REITs—Real estate investment trusts. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor’s Financial Services LLC. All rights reserved.

However, the current level of credit distress remains elevated, and risks are likely to the downside, especially heading deeper into the winter months with higher COVID-19 infection rates and renewed lockdown measures. By property type, we are focusing on multiple areas, though ratings closely tied to lodging and retail collateral, especially in SASBs, remain priorities.
Lodging

The lodging sector has been one of the most heavily affected by the pandemic due to government travel restrictions, state-mandated closures, and consumers’ fear of travel. Yet, the pandemic and its ensuing effects have not affected all lodging property types and locations to the same degree. Limited-service and extended-stay hotels have outperformed full-service hotels. Hotels in drive-to locations, suburban, and smaller markets have outperformed hotels in urban and airport markets. Given the magnitude of the revenue per available room (RevPAR) decline in 2020, which we expect will hover around -50.0%, we believe that the recovery will be slow and take several years. We do not expect RevPAR will return to 2019 levels until 2023. Certain hotels will recover faster than others, depending on price point, location, and market mix. We expect there will be hotel closures in urban markets that are oversupplied, a phenomenon we have already seen in New York and Chicago. Favorably, the supply pipeline should moderate as construction is halted due to lack of financing. Also, just as hotels are the first property type to falter because of their lack of long-term leases, they are also able to recover rapidly when demand rebounds.

Retail

Retail malls have been facing significant challenges and deteriorating revenues for the past several years due to factors including the proliferation of retailer bankruptcies and store closures as consumer shopping preferences shifted to e-commerce from brick-and-mortar stores. We expect performance deterioration to continue and/or accelerate over the next year. Meanwhile, grocery-anchored retail, home improvement stores, and some larger big-box retailers are generally outperforming the traditional retail stores. Given this bifurcated outlook, we recently revised our capitalization rate assumptions for retail malls to reflect the long-term secular challenges facing the sector.

Office and multifamily

As previously noted, the office and multifamily sectors are facing some share of uncertainty going forward, though their performance to date, and to an even higher degree industrial and self-storage, has been comparatively stronger.

For offices, most of the questions regard future space demand. On one side, some combination of a population shifts away from larger, denser cities, work-from-home arrangements, and corporate cost-cutting strategies favoring a shrinking real estate footprint, may lead to reduced demand, especially in central business districts (CBDs). Moreover, subleasing activities, which was reflected by an increase in the spread between availability rates and vacancy rates, in certain CBD markets warrants caution. On the other side of the debate, market participants stress the positive aspects of collaboration, the need to train junior employees, social distancing measures that are being implemented, momentum in the sense that office culture has been in place for a long time, the availability of effective vaccines, and the temporary nature of the current pandemic. We expect this picture to come into a sharper focus over the coming quarters, with more clarity likely in 2021 with the reentry of workers to their offices. It is also important to note that office leases are typically for longer terms, on the order of 10 years or more, so any potential distress would likely take place over an extended period.

We’ve already seen some evidence that multifamily rents have declined in certain large cities. Per CoStar data, rents in downtown areas have fallen by more than 6.0% from the March 2020 peak and have been falling at a rate of about 1.0% per month since June. Concessions have also been increasing, especially at newer properties that are struggling to lease up to a stabilized level. Similar in magnitude to offices, values have declined a little less than 10% versus the pre-COVID-19 period, according to Green Street. And just like offices, some risk of deterioration in property fundamentals/values exists due to a potential population shift away from denser city centers, which could increase vacancies and drive down rents. There is some evidence of this supporting home values and rents in suburbs, exurbs, and smaller markets. The trend is expected to continue as work-from-home options mean that employees don’t need to be near offices and are seeking out larger spaces to accommodate a home office.
Global Structured Finance Outlook

Canada | Structured Finance

Key Takeaways
- We forecast weak Canadian ABS collateral performance and term ABS volume of approximately C$21 billion in 2021, with RMBS new issuance declining to about C$1.5 billion and credit card ABS increasing to C$11 billion.
- Cross-border issuance into the U.S. market will likely represent 35%-65% of Canadian credit card and auto loan ABS.
- RMBS face headwinds from mortgage deferrals and a potential housing price correction in the first quarter, while CMBS face risks from work-from-home policies and other pandemic-induced challenges.

What To Look For Over The Next Year
Our 2021 outlook for Canadian ABS collateral performance is somewhat weaker relative to 2020 and our rating performance trend is stable. We expect Canadian term ABS volume of approximately C$21 billion in 2021, with an estimated C$11 billion in credit card ABS, C$6.8 billion in auto ABS, C$0.5 billion in commercial farm equipment ABS, and C$1.5 billion in RMBS backed by uninsured residential mortgages. We also forecast that 35%-65% of Canadian credit card and auto loan ABS will be cross-border issuance into the U.S. market. Issuance volumes for 2021 is contingent on normalization of markets as the dislocation from 2020 recedes.

Canadian ABS Issuance

Credit card ABS
We expect Canadian credit card volume to increase to C$11 billion in 2021, primarily due to refinancing of maturities, following the steep 74% year-over-year decline to C$2.6 billion in 2020. The reversion of credit cards ABS spreads to pre-COVID levels, coupled with the expected lack of issuance from established U.S. credit card ABS issuers, provide an opportunity for Canadian banks to continue to access the broader and more diversified U.S. investor base through cross-border issuance into the U.S. market. With issuance trailing maturities by about C$10.4 billion in 2020, 2021 volumes could be greater we estimate. Overall, we believe credit card ABS programs' relative all-in cost of fund levels, issuers' funding needs, and market conditions will continue to influence Canadian ABS issuance volume.

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Notwithstanding the market disruption in first-quarter 2020, which resulted in a 10% decline in receivable balance and performance volatility, Canadian credit card ABS performance recovered quickly and remained strong. The three-month average 60-plus-day delinquency rate and charge-off rate of 0.8% and 2.1%, respectively, as of October 2020 were lower than the corresponding 1.2% and 3.0% in 2019. Payment rate also remained robust, with the three-month average increasing to 49.3% year over year in October from 45.9% in 2019. These figures positively affected yield and excess spread, which averaged 23.4% and 17.8%, respectively, as of October. This steady performance resulted from originators’ forbearance programs, unprecedented government pandemic assistance payments, and the collateral pools’ strong credit profile. On average, approximately 85% of the receivables are from accounts at least five years old, which leads to stable payments and performance. Accounts with credit score of 700 and above comprise approximately 72% of receivables, and the receivables are also geographically diverse, with province exposure consistent with the nation’s population distribution.

**Auto-related ABS (loan, lease, and dealer floorplan)**

We expect Canadian auto ABS issuance will resume in 2021, particularly cross-border transactions into the U.S., given the rapid normalization of the U.S. auto ABS market. We forecast C$6.8 billion in issuance, with a split of 75% term loan and 25% lease ABS (see chart below). There was no equipment- or rental-related ABS issuance in 2020, but we expect issuances totaling C$0.5 billion and C$0.2 billion, respectively, in 2021.

Auto loan ABS volumes decreased 58% to C$1.9 billion in 2020 from C$4.6 billion in 2019, while auto lease decreased 43% to C$0.98 billion. Given the relatively small size of the Canadian auto ABS market, spreads, which widened significantly during the market dislocation in 2020, did not revert to pre-pandemic levels with the same speed as the U.S. auto markets. The lack of investor interest saw at least one auto captive issuance sold directly to bank-sponsored ABCP conduits. With the disruption in manufacturing activities, we expect new vehicles sales to decline in 2021, which will benefit vehicle resale values, recovery, and residual values.

We also expect both term ABS collateral credit quality and cumulative net losses will remain stable in 2021.
Canadian Term Auto ABS Issuance

We expect commercial farm equipment ABS volume to rebound in 2021 as higher crop prices due to confluence of factors result in increased demand for farm equipment. We anticipate at least one transaction for a minimum of C$500 million compared to no issuance in 2020.

RMBS

We forecast RMBS new issuance will decline to about C$1.5 billion in 2021 due to risks of mortgage deferrals and a potential housing price correction keeping investors at bay and thus constraining new issuance volumes.

Mortgage-related ABS issuance increased to C$4.0 billion in 2020 from C$1.8 billion in 2019, driven by a new RMBS issuer and new issuance from an established home equity loan trust. We expect issuance volume to remain low in 2021, reflecting a marketing transition to private-label non-guaranteed and non-insured mortgage-backed RMBS issuers from federal government-guaranteed and insured MBS programs due to challenges related to program establishment and cost-effective economics.

We believe national home prices will likely decline by 9% in first-quarter 2021 before starting to improve as the labor market recovers. Canadian banks’ overall credit quality and capital levels should remain resilient throughout the steep but short-lived correction in house prices due to exceptionally low interest rates, strong credit underwriting, and substantial borrower equity within uninsured residential mortgage loans.

CMBS

We believe headwinds from companies’ work-from-home policies and other evolving challenges within the sector will likely constraint CMBS issuance in 2021. The only CMBS transaction in 2020 totaled C$1 billion and was issued in January—before the onset COVID-19 pandemic-induced market dislocation.
Key Takeaways

- European securitization issuance should bounce back to €75 billion in 2021 and benchmark covered bond volumes should recover modestly.
- However, central banks’ renewed large-scale provision of cheap term funding for credit institutions will likely stifle bank-originated structured finance supply.
- Most ratings have been resilient to the effects of the COVID-19 pandemic so far, but underlying credit stress could become more apparent as support schemes end.

What To Look For Over The Next Year

Issuance set to bounce back modestly from multi-year lows

After a strong start to 2020, investor-placed European securitization issuance stalled due to the coronavirus pandemic and ended the year down by 33% at €68 billion—the lowest annual total since 2013 (see chart below). Issuance could bounce back from this low base to €75 billion in 2021, assuming a successful rollout of vaccines and an associated easing of restrictions and economic recovery. European benchmark covered bond issuance also declined 34% to €87 billion in 2020. We believe an increase in scheduled covered bond redemptions could support a muted recovery in volumes, despite issuers' continued access to cheaper funding alternatives.

We believe wholesale funding issuance will benefit from continued steady growth in underlying lending to the real economy. However, the extraordinary monetary policy response to the pandemic included renewed liquidity provision from central banks, which will likely dampen the supply of both covered bonds and bank-originated securitizations throughout 2021.

Although European securitization volumes declined across countries and sectors in 2020, new issuance diversity increased as niche sectors saw relatively lower volume declines than the combined 40% drop seen in the three core areas of leveraged loan CLOs, U.K. RMBS, and German auto ABS. For instance, RMBS volumes outside the U.K. and Netherlands fell only 22%. Meanwhile, auto ABS issuance outside France, Germany, and the U.K. increased 8% and returned in Greece, Ireland, the Netherlands, and Portugal following no activity in 2019. Despite the challenging backdrop, Spanish securitization issuance...
Global Structured Finance Outlook

also saw a second consecutive year of growth, with investor-placed volumes increasing 25% to over €4 billion—the highest level since the 2008 financial crisis.

CLOs remained the highest-issuance sector in 2020, despite recording a 60% decline after four successive years of growth. We believe CLO volumes could recover to about €25 billion in 2021, given a likely uptick in underlying leveraged loan originations and improving transaction economics. These issuance figures do not include CLO refinancings and resets, which accounted for significant additional activity in 2017-2019 but very little in 2020, as liability spreads widened and CLO managers had no incentive to refinance or reset transactions that exited their non-call periods. In 2021, however, we expect a significant uptick in refinancings and resets, especially because many 2020 vintage CLOs were structured with short non-call periods in anticipation of a trend toward lower financing costs, which has subsequently materialized.

Benchmark covered bond issuance declined in most markets, except in France, where volumes rose 5% to more than €27 billion. German issuance fell to under €20 billion for the first time since 2017, and the U.K. market, which had the third largest issuance in 2019, saw volumes drop by nearly 60% in 2020.

**Revived central bank funding schemes set to stifle bank-originated structured finance**

Bank-originated European structured finance volumes have been depressed for several years due to the availability of cheaper funding options from the European Central Bank (ECB) and the Bank of England. While some of these schemes had been gradually winding down, the monetary policy response to the coronavirus pandemic saw central banks revive their large-scale provision of cheap term funding for credit institutions, which will likely stifle bank-originated structured finance supply once again.

Throughout the pandemic, underlying bank lending to households and nonfinancial corporates in the U.K. and the eurozone remained resilient with low-single-digit annual growth rates. This supports net issuance of wholesale funding, potentially including securitizations and covered bonds, though these products’ share of the overall funding mix will partly depend on the availability and cost of issuers’ central bank alternatives.

In the U.K., the approaching maturity of some originators’ borrowings from official sector funding schemes had promised to spur growth in bank-originated structured finance through 2020 and beyond. However, in March 2020, the Bank of England relaunched its Term Funding Scheme, now dubbed the TFSME. This contributed to lower U.K. covered bond and bank-originated securitization supply in 2020, with financial institutions drawing down nearly £70 billion from the new scheme during the year. The ECB loosened the terms of its equivalent scheme of targeted longer-term refinancing operations (TLTROs), leading to a similar effect in the eurozone. Most recently, in early December, the ECB scheme was again extended to provide funding until the end of 2024. The ECB also raised the amount banks can borrow under the scheme by 10% and extended the timeframe for application of the most favorable borrowing rate.

Although issuers will likely substitute this central bank funding for some European covered bond issuance, they may still find covered bonds an attractive method to fund at longer maturities. In addition, scheduled covered bond redemptions are set to increase nearly 10% in 2021, so gross volumes could still increase 10%-15%, in our view, even assuming net issuance remains modestly negative. Another potential positive for the covered bond sector is that the European Union’s legislative package to better harmonize the region’s covered bond markets should be transposed into member states’ national laws by July 2021, with the new measures going into effect by July 2022. However, we see an increasing risk that the project could be delayed in some countries due to changes in legislative focus to support recovery from the pandemic.

In the European securitization market, although long-running regulatory projects generally moved further from the spotlight in 2020, progress was made on the EU’s Securitization Regulation, as key technical standards came into force during the year, including those on disclosure requirements. However, some market infrastructure that the regulations ultimately require is still under development, such as transaction data repositories. Additionally, some proposed amendments to the Securitization Regulation and related bank capital requirement rules were included in a fast-tracked legislative package in 2020 and would extend the “simple, transparent, and standardized” (STS) quality label to securitizations that are structured synthetically. This could facilitate more widespread use of securitization as a balance sheet management tool and spur more issuance in the longer term.
We also expect the European securitization markets will see some changes following the end of the Brexit transition period on Dec. 31, 2020. Notably, the EU27 and U.K. regulatory frameworks no longer have full reciprocal recognition for securitizations, meaning that U.K. transactions can no longer carry the EU’s incarnation of the STS label. This will lead to some EU investors facing higher regulatory capital charges on U.K. securitization exposures.

Credit stress may develop as support schemes end

We expect European structured finance credit performance to remain under pressure in 2021. With COVID-19 infection rates still high and governments enacting tighter restrictions, the road to recovery will remain bumpy until effective vaccines become widely available. We believe the economic damage from the pandemic will become clearer through 2021, once a recovery takes hold and fiscal support starts to be scaled back.

Since March 2020 and the onset of the COVID-19 pandemic in Europe, we have lowered just over 3% of our ratings on structured finance securities in the region. CMBS transactions backed by retail and hotel real estate have been most affected, along with corporate securitizations linked to leisure businesses, but these sectors constitute a small portion of our outstanding European securitization ratings.

For most asset classes, the 12-month trailing average change in credit quality has been positive for several years, indicating aggregate upward ratings movements, though the trend weakened in 2020 (see chart below). This measure highlights the CMBS sector’s weaker credit performance, where ratings moved lower by an average of 0.5 notches during the 12 months ended September 2020.

Ahead of final annual data, we believe the eurozone economy shrunk by more than 7% in 2020 but forecast a rebound of about 5% in 2021. The ECB is set to keep its policy rates lower for longer and extend its asset purchases, given inflationary pressures are unlikely to build in the short term. We also expect the eurozone unemployment rate to increase by less than one percentage point to 8.7% in 2021, which would place limited pressure on consumer-related assets backing eurozone securitizations and covered bonds, and we forecast a recovery to the pre-pandemic unemployment rate of 7.6% by the end of 2023. U.K. workers are likely to be relatively harder hit, with a two percentage point increase in unemployment to 6.7% in 2021 and a slower recovery than in the eurozone, partly due to additional pressures surrounding Brexit.

For sectors backed by consumer lending, the underlying borrowers have benefited from both income support through furlough schemes and reduced outgoings through payment holidays. Many of these schemes were extended in late 2020, following the second wave of lockdowns, but we expect collateral
performance will eventually deteriorate in the second half of 2021 as support measures come to an end and unemployment increases. For corporate-backed transactions, there remains some downside risk to ratings if credit distress among underlying borrowers increases this year. For example, we forecast the annualized default rate for European speculative-grade corporates could rise to 8% by September 2021. The impact for European CLO ratings will partly depend on how well collateral managers are able to continue mitigating credit deterioration through trading activity.

We don’t foresee any negative effect on the fundamental functioning of European structured finance transactions due to the conclusion of U.K.-EU trade negotiations. Instead, given the diverse collateral backing European securitizations and covered bonds, we anticipate that any effects due to the Brexit outcome will be felt more gradually as wider macroeconomic implications filter through to underlying credit performance. U.K. housing will be one area of focus, although any incremental stress due to Brexit may prove insignificant relative to the pandemic’s impact and the eventual end of associated fiscal and monetary support.
Latin America | Structured Finance

Key Takeaways

− We expect issuance to increase modestly to $15 billion in 2021.
− Despite this increase, we also believe it will be another challenging year for issuers in the region.
− We will continue to focus on the pandemic’s impact on collateral performance, particularly on ABS transactions.

What To Look For Over The Next Year

Issuance will increase slightly as the region weatheres the second wave

We expect Latin American new issuance to increase to approximately $15 billion in 2021 from $13 billion in 2020, though the year will likely be another challenging one for issuers. The region’s economic recovery from the COVID-19 pandemic will likely remain among the slowest in the emerging markets due to the severity of the damage inflicted to labor markets and investments, and, in some cases, the economic weaknesses that preceded the pandemic. For some countries, including Argentina and Mexico, our economists don’t expect GDP to return to pre-pandemic levels until 2023 and beyond.

In 2020, overall collateral performance improved as the year progressed. However, the spike in COVID-19 cases in December has led to increased restrictive measures in several countries in the region. And while the year ended with new issuance activity remaining strong in Brazil, supported by the cross-border market, it remained low in Mexico and Argentina. We will continue to monitor the pandemic’s impact on structured finance activity in Latin America, particularly on ABS deals that are exposed to consumers and small and medium enterprises (SMEs).
**Australia | Structured Finance**

### Key Takeaways

- We expect Australian structured finance new issuance to remain stable year over year at approximately USD 22 billion and dominated by non-bank issuances.
- We also expect arrears to start increasing in the second as mortgage deferrals roll off.
- Australian structured finance sector will remain largely resilient to the economic effects of the COVID-19 pandemic due to enormous fiscal stimulus and low interest rates.

### What To Look For Over The Next Year

In 2021, we expect Australian structured finance new issuance levels to remain similar to 2020 levels, which was USD 22 billion as of November, and dominated by non-bank originators, though levels could increase due to the strong demand for yield and some banks’ alternate year issuance patterns to ensure funding diversity. We don’t expect banks to make a material contribution to structured finance new issuance while cheaper funding is available via the Reserve Banks of Australia’s Term Funding Facility, under which banks can access three-year funding at the fixed rate of 0.1% until June 30, 2021. This has widened the funding cost advantage of banks to non-banks and intensified competition for prime quality borrowers.

Increased refinancing activity, particularly for prime quality borrowers, has raised prime prepayment rates. Across originators, non-bank prime originators have experienced the greatest uptick in prepayment rates, given the higher refinancing activity of their borrowers to banks offering ultra-low, fixed-rate home loans. With non-banks increasingly priced out of the prime borrower bank market, we believe transaction characteristics are likely to be skewed toward more “specialist lending” products in 2021, including investment loans, interest-only loans, loans to nonresidents, and self-managed super fund (SMSF) loans.

Australian structured finance new issuance picked up pace over the course of 2020 despite a shaky start and reached USD 22 billion in November, though this represented a decline from USD 26 billion a year earlier. With USD 19 billion in new issuance, RMBS comprised most of the Australian structured finance securitizations issued last year, with nonconforming RMBS issuance increasing to over 25% of total RMBS issuance from 17% in 2019. The ubiquitous search for yield drove increased demand for this asset class, which is expected to continue increasing in 2021 and beyond as we enter an era of low interest rates. ABS also gathered momentum with several deals issued, including Australia’s first solar receivables securitization.

Arrears performance has yet to show the impact of the pandemic due to mortgage relief programs, which are expected to last through March 2021, though many borrowers were due to, and have, exited the original arrangements in October 2020. Mortgage deferral levels continue to fall as the economy gradually reopens, and we expect arrears to start increasing in the first quarter, with losses likely through the second half of the year.

Household income has been well supported by enormous fiscal stimulus measures, the ability to access superannuation reserves, and low interest rates. This has driven up household savings, enhancing repayment buffers that can be drawn on if needed. Job losses are likely to be concentrated in the tourism and hospitality sectors—industries where workers are more likely to rent. This may temper future arrears increases. We expect downgrades to be limited to lower-rated tranches of some nonconforming transactions and small and medium-sized enterprise transactions, given the strong credit support available in many RMBS and ABS transactions.
China | Structured Finance

**Key Takeaways**

- We forecast real GDP growth of 7% in China in 2021 and expect Chinese structured finance issuance volume will increase about 15% to RMB3.3 trillion (US$500 billion equivalent).
- Auto loan ABS will likely exhibit flat-to-modest growth, while RBMS volumes will likely recover but remain below the pre-pandemic levels.
- Overall, we forecast Chinese auto loan ABS and RMBS will demonstrate strong and stable credit metrics, with our investment-grade ratings outlook remaining stable to positive.

**What To Look For Over The Next Year**

We expect Chinese structured finance issuance volume to increase about 15% to RMB3.3 trillion (US$500 billion equivalent) in 2021. Corporate risk-related sectors are expected to remain buoyant and drive total issuance, reflecting corporate and factoring sectors’ increased use of securitization and a steady economic recovery, based on our projected GDP growth in 2021. RMBS volumes will likely recover in 2021 but remain below the pre-pandemic level, partly due to flat residential sales. We expect flat to modest growth in auto loan ABS, supported by low-single-digit growth in auto sales over next few years and an continuous uptick in auto loan penetration rate.

In terms of collateral performance, our rated Chinese auto loan ABS and RMBS continue to demonstrate strong and stable credit metrics. These include low and stable delinquency rates since first-quarter 2020, which can be partly attributed to the steady recovery since the peak pandemic-induced economic declines seen in the second quarter. We expect our ratings performance on Chinese auto loan ABS and RMBS to remain stable for ‘AAA’ rated tranches and stable to positive for other investment-grade (‘AA+’ through ‘BBB-’) rated classes, based on our expectation for stable collateral performance and increased credit enhancement support for most of the static pool-backed deals because the rated notes amortize over time. We also believe the auto ABS with revolving structure we rate are more likely to experience idiosyncratic risks as the economy recovers from the pandemic impact. This could arise due to individual companies expanding in less familiar subsegments or new origination channels and encountering heightened credit risk.
Global Structured Finance Outlook

Japan | Structured Finance

Key Takeaways

− We forecast total Japanese structured finance issuance of about US$60 billion equivalent in 2021, after the rebound that followed the 20% year-over-year decline in second-quarter 2020.
− Market issuance trends will likely remain unchanged, with RMBS and ABS issuance representing over 95% of issuances, while CMBS and CDO account for very few.
− Despite the recent increase in infection rate, we expect our rating outlooks to remain generally stable, based on our macroeconomic forecast and supported by the prolonged low interest rate environment.

What To Look For Over The Next Year

We expect total Japanese structured finance issuance of about US$60 billion equivalent in 2021, which is relatively stable compared with 2020 levels. In second-quarter 2020, total issuance declined 20% year over year following the Japanese government's announcement of a state of emergency in April due to the COVID-19 pandemic. However, the market rebounded a few months after the state of emergency was lifted in May and total issuance (excluding covered bonds) recovered.

The pandemic situation in Japan remains fluid, and the recent increase in infection rate may negatively affect issuance in 2021. However, under Japan's prolonged low interest rate environment, investors have been searching for higher yields, including through onshore and offshore investments, which we believe will support issuance in 2021.

Japan Securitization Issuance

<table>
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<th>Asset type</th>
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<th>2020F</th>
<th>2021F</th>
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<tr>
<td>RMBS</td>
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</table>

ABS—Asset-backed securities. RMBS—Residential mortgage-backed securities. F—Full-year forecast. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor’s Financial Services LLC. All rights reserved.

RMBS and ABS dominates structured finance issuance in Japan and represented more than 95% of total issuance in 2020, while CMBS and CDO were not major asset classes. Japan Housing Finance Agency remains the largest originator of RMBS in the country, accounting for about 30% of overall Japanese structured finance issuance in 2020. Within the ABS sector, major sub-asset classes included auto loan ABS and mobile phone installment ABS. We expect these trends to continue in 2021.

Although the performance of loans backing Japanese structured finance transactions declined somewhat due to the pandemic, our ratings on the transactions remained generally stable because the pandemic’s negative impact on performance wasn’t prolonged. We expect our ratings on Japanese structured finance transactions and the performance of the loans backing those transactions to remain generally stable in 2021, based on our economists’ forecast for Japan GDP growth of 2.7% in 2021 and our expectations for unemployment to remain at around 3% and a continued low interest rate environment.
Global Structured Finance | LIBOR

Key Takeaways

− We believe the transition from LIBOR will generally lead to a greater fragmentation of benchmark interest rates.

− Legacy securitizations with weak or problematic LIBOR fallbacks face the most challenges, and the U.S. has the highest exposure with approximately 4,500 LIBOR-based transactions outstanding.

− The recent extension for the U.S. dollar LIBOR phaseout until after June 2023 for legacy securities reduced the panic around the transition, but the work remaining for structured finance is significant and may necessitate a legislative solution.

What To Look For Over The Next Year

COVID-19 has shrouded the LIBOR transition

While the financial stress induced by the COVID-19 pandemic dominated financial markets in 2020, the LIBOR transition has been quietly gaining in prominence as the benchmark’s originally scheduled phase-out date edged closer. We believe the move away from LIBOR will generally lead to a greater fragmentation of benchmark interest rates as central banks develop and implement new risk-free rates (RFRs) as substitutes for broad lending rates in their currencies. However, the initial five RFRs are overnight rates, and, until derivative markets are sufficiently liquid, users of these newer benchmarks will need to compound daily rates into analogous LIBOR maturities. Also, some floating-rate structured finance transactions continued to use LIBOR in 2020, though most issuers incorporated robust fallback language into liability transaction documents to minimize a disorderly transition when LIBOR phases out.

The biggest challenge lies with legacy securitizations

The primary challenge structured finance markets face globally with the LIBOR transition involves legacy securitizations with weak or problematic LIBOR fallback language (fallbacks) because the permanent cessation of LIBOR was not contemplated when these older transactions were issued. And the degree to which transaction documents can be amended varies by region. For example, most U.S. securitizations need unanimous noteholder approval for interest rate changes (as required by the Trust Indenture Act in many cases), while most European transactions generally require supermajority, but not unanimous approval thresholds and Japanese transactions reflect a varied mix of approvals. Absent amendments, many transactions contain language that converts rates to fixed, which may lead to disputes. Furthermore, many of the alternative rates have fundamental differences from LIBOR and require adjustments such as a spread. Such spreads have typically not been specified in transaction documents prior to 2018. While far smaller in number, most European transactions with LIBOR-based liabilities contain hedges, where fallbacks and rate changes will need to be compared across assets, liabilities, and hedge agreements. Hedge agreements are very limited in U.S. securitizations and are, therefore, not a major factor in LIBOR transition risk for this market. To the extent transaction amendments are difficult, a legislative solution would likely limit the disruption across global securitization markets, especially in the U.S. where the exposures is the highest, at over 4,500 transactions tied to LIBOR.

Extension for U.S. dollar LIBOR phaseout reduced panic but not the work needed

On Nov. 30, 2020, the ICE Benchmark Administrator issued a consultation with coordinated support from U.S. federal banking regulators that extends the phaseout date for most U.S. dollar LIBOR maturities by 18 months to June 2023. We believe this extension will likely provide the following four benefits to legacy securitizations:

− Exposure reduction through additional amortization and securities maturing, though this benefit is limited because the legal final maturity dates on most LIBOR-linked securitizations extend well beyond June 2023;
Global Structured Finance Outlook

- More separation between legacy portfolio remediation and new issue adoption of alternate rate for securities using U.S. dollar LIBOR, which should enable broader acceptance of alternative rates prior to more permanent phase out in 2023;
- Additional time for potential federal and New York legislation to be enacted, which would likely mitigate litigation risk and provide for a more orderly transition to new rates; and
- Additional time for a term Secured Overnight Financing Rate (SOFR) rate to emerge, which operationalizes similarly to LIBOR in securitizations.

While the extension removes the panic associated with the U.S. dollar LIBOR transition originally expected during the next six to nine months, it is unlikely to reduce the significant amount of remediation work needed for legacy U.S. securitizations to select replacement rate and spreads, and make related operational conversions for new rates. Further, with the deadline for the four non-U.S. dollar LIBOR currencies still set for December 2021, LIBOR transaction activities and developments will first occur outside the U.S. securitization market.
Key Takeaways

− In the eight months ended November 2020, ESG factors accounted for about 25% of our rating actions on global structured finance transactions, and we noted that securitized commercial assets have generally been more credit sensitive to the pandemic.

− In 2020, we took certain measures that increased the transparency of ESG considerations in our analysis and expect to take further steps to this end in 2021.

− The COVID-19 pandemic was a systemic ESG risk that impacted multiple jurisdictions and asset classes, leading to elevated ESG-related rating actions in 2020. We expect fewer ESG-related rating actions in 2021 because, in most cases, ESG credit factors, when considered in isolation, are not key rating drivers but indirect risks captured by other aspects of our credit analysis.

What To Look For Over The Next Year

In 2020, social factors rose to the forefront of ESG as the COVID-19 pandemic exacerbated inequalities and fueled social and political instability as low-income workers in developed and emerging markets became disproportionately affected by the health, community, and social failouts of the pandemic and curtailment measures. The Black Lives Matter protests globally, for instance, showed the need to address inequality and racism in society. This spurred many management teams to focus on the relationship between employers and their employees—putting a spotlight on improving workforce diversity and equity. The pandemic has also made clear the need for more resilient business models, which will likely require stronger supply chains and preparedness for climate change.

Another key theme that emerged last year was the increasing need for transparency of ESG factors to facilitate the integration of ESG principles in structured finance transactions. For instance, unlike in the equity and corporate credit markets where sustainability reporting frameworks have been established, such as the Sustainable Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD), no ESG reporting standards have been developed for the highly diverse structured finance market. And while market participants have been requesting ESG metrics on underlying collateral, they typically face significant data limitations because these fields may not have been captured at loan origination or are not considered under the loan-level reporting templates (e.g., RegAB II and EU Securitisation Regulation). As a result, only general information on the originator’s and servicer’s sustainability policies may be available. We understand that several industry groups, including the Structured Finance Association (SFA) and UN Principles for Responsible Investment (UN PRI), recognize the unique reporting challenges of structured products and have established committees with a goal to develop an industry-led solution.

We have also received numerous inquiries on how our credit ratings on structured finance transactions incorporate ESG factors (see “ESG Credit Factors In Structured Finance,” published Sept. 19, 2019). To increase transparency of ESG considerations in our analysis, beginning March 30, 2020, we now include an explicit reference when one or more ESG factors are a key driver behind a credit rating action. This year, we will further transparency by publishing ESG report cards for the major structured finance sectors. These will list ESG factors that may have a more positive or negative influence on transaction credit quality and establish a benchmark for the relative ESG exposures in each asset class. Our credit rating rationales will also include a dedicated ESG section, where the transaction will be compared to the published ESG benchmark, where applicable. This section will highlight any ESG exposures that we believe differ from the overall sector and identify any structural mitigants to these risks.

In the eight months ended November 2020, ESG factors accounted for about 25.0% of our rating actions on global structured finance transactions and directly affected approximately 1.5% of all ratings. All ESG-related rating actions were attributed to Health & Safety factors, primarily due to the COVID-19 pandemic’s impact on credit quality. Securitized commercial assets have generally been more credit sensitive to the pandemic because of its direct impact on labor, supply chains, and sales, as well as because there are fewer social safety nets supporting businesses. These assets included whole business...
securitizations (e.g., pubs, fast-food restaurants, and gyms), aircraft-related ABS, and CMBS with hotel
and retail exposure (see table below). Meanwhile, consumers have generally been more insulated from
immediate payment disruption risk because household savings, net wealth, and reduced discretionary
purchases have all support their ability to continue making debt service payments. In some jurisdictions,
government support programs (e.g., furlough and unemployment benefits) helped offset any reduction in
employment income. Since most of the initial CreditWatch placements we made following the start of the
pandemic have been resolved, we expect less ESG-related rating actions in 2021. Because, in most cases,
ESG credit factors, when considered in isolation, are not key rating drivers but indirect risks captured by
other aspects of our credit analysis. For the most recent summary of our ESG-related rating actions see

### ESG-Related Rating Actions In Structured Finance(i)

<table>
<thead>
<tr>
<th></th>
<th>April 2020 - November 2020</th>
<th>% of total ratings affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downgrade</td>
<td>426</td>
<td></td>
</tr>
<tr>
<td>CreditWatch negative</td>
<td>375</td>
<td></td>
</tr>
<tr>
<td>Total ESG–related rating actions</td>
<td>801</td>
<td>1.5</td>
</tr>
<tr>
<td>o/w ABS</td>
<td>41</td>
<td>1</td>
</tr>
<tr>
<td>o/w CMBS</td>
<td>527</td>
<td>19</td>
</tr>
<tr>
<td>o/w Linked</td>
<td>21</td>
<td>0</td>
</tr>
<tr>
<td>o/w Non-traditional(ii)</td>
<td>200</td>
<td>16</td>
</tr>
<tr>
<td>o/w RMBS</td>
<td>12</td>
<td>0</td>
</tr>
</tbody>
</table>

(i)Data as of Nov. 30, 2020. (ii)Non-traditional structured finance asset classes include whole business, aircraft, container, railcar, timeshare, small business, and triple-net lease securitizations. ESG—Environmental, social, and governance. o/w—Of which. Copyright © 2021 by Standard & Poor’s Financial Services LLC. All rights reserved.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the
coronavirus pandemic. While the early approval of a number of vaccines is a positive
development, countries’ approval of vaccines is merely the first step toward a return to social and
economic normality; equally critical is the widespread availability of effective immunization, which could
come by mid-2021. We use this assumption in assessing the economic and credit implications associated
with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will
update our assumptions and estimates accordingly.