Volume 26 | Number 4 | Winter 2021

the Journal of STRUCTURED FINANCE

Welcome to the Winter 2021 issue of *The Journal of Structured Finance*. This issue has a guest editor: Elen Callahan, the head of research at the Structured Finance Association (SFA). She has pulled together a great lineup of articles, which reflects the scope of the SFA's activities and initiatives. The breadth of those activities is reflected in the wide range of the organization's subject matter committees and issue task forces (Exhibit 1).

EXHIBIT 1

Structured Finance Association—Subject Matter Committees and Issue Task Forces

Subject Matter Committees	Issue Task Forces
• Accounting Policy	• Bondholder Communication
• Alternative & New Products	• China Market Development
• CLO	• Derivatives in Securitization
• CMBS	• ERISA
• Marketplace Lending	• ESG Investing
• Regulatory Capital & Liquidity	• European Securitization Regulations
• RMBS: Government Guaranteed	• LIBOR
• RMBS: Private RMBS	• QM
• Significant Risk Transfer	• Securitization and Covered Funds
• Tax Policy	• TPR/RA Compliance Review Scope (TRID Grid)
• Technology Innovation	• Valid-When-Made

Moreover, given the challenges that emerged over the course of 2020, the SFA's core mission of "supporting a robust and liquid securitization market" resonates more loudly than ever.

The Coronavirus pandemic landed some punishing blows on the US economy in 2020, particularly in the second quarter. US GDP dropped sharply and the unemployment rate spiked (Exhibit 2).

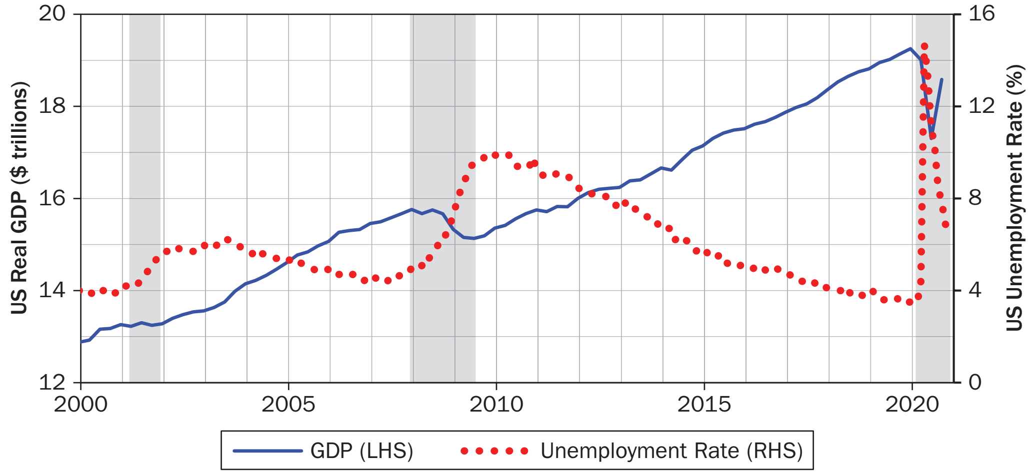
Both GDP and the labor market managed partial recoveries, likely due to the strong combination of $2.2 trillion of fiscal stimulus from the CARES Act[1] and extremely accommodating monetary policy by the Fed, including increasing the size of the Fed's balance sheet by more than $3.2 trillion (from roughly $4.1 trillion at the start of 2020 to more than $7.4 trillion in late December). Of note, the Fed's holdings of Treasury securities increased by more than $2.3 trillion. The prospects for continuing the recovery have been buoyed by additional stimulus of $908 billion under the Consolidated Appropriations Act, 2021.[2]

[1] CARES Act, Pub. L. No. 116-36, 134 Stat. 281 (27 Mar 2020), https://www.govinfo.gov/content/pkg/PLAW-116publ136/pdf/PLAW-116publ136.pdf.

[2] Consolidated Appropriations Act, 2021, Pub. L. No. 116-260 (27 Dec 2020), https://www.govinfo.gov/content/pkg/BILLS-116hr133eah/pdf/BILLS-116hr133eah.pdf.

EXHIBIT 2

US Real Gross Domestic Product, Seasonally Adjusted (2012 dollars, trillions) and US Unemployment Rate (%)



NOTES: US GDP peaked in 2019Q4 at an annual rate of $19.25 trillion (in 2012 dollars). It declined to $19.01 trillion in 2020Q1 and then dropped sharply to $17.30 trillion in 2020Q2. US output recovered somewhat to an annual rate $18.58 trillion in 2020Q3. The unemployment rate peaked at 14.7% in April.

SOURCES: Bureau of Economic Analysis (Table 1.1.6. Real Gross Domestic Product, Chained Dollars); Bureau of Labor Statistics (Series Id: LNS14000000).

Meanwhile, the US securitization market has had a mixed year. In one sense it has flourished, with total issuance activity set to exceed $3 trillion by a good margin. The underlying driver is single-family mortgage loan originations, which are likely to reach $4 trillion for the year. However, the great majority of the year's securitization issuance volume will come from agency MBS. Issuance levels from other areas of the structured finance landscape have been depressed and generally below their 2019 levels. (Exhibit 3).

While the high level of agency MBS issuance has certainly been a benefit for US homeowners, the low levels of activity in other securitization sectors does not bode well for the structured finance industry. For the first 11 months of 2020, all types of structured finance issuance other than agency MBS accounted for just 9% of total activity. By contrast, from 1996 through 2003, US structured finance issuance other than agency MBS represented more than 36% of the total. Most industry professionals work on things other than agency MBS production. Therefore, they have a direct stake in encouraging a revival of non-agency activity. As the overall level of non-agency issuance volume shrinks, it seems more important than ever to make such a revival happen.

A closer look is revealing. In the non-mortgage area, recent US annual issuance levels for most asset classes have displayed high variability (Exhibit 4). The exception is auto ABS, which have produced a steady flow of more than $100 billion annually for the past four years. In fact, the auto ABS sector has produced a generally steady

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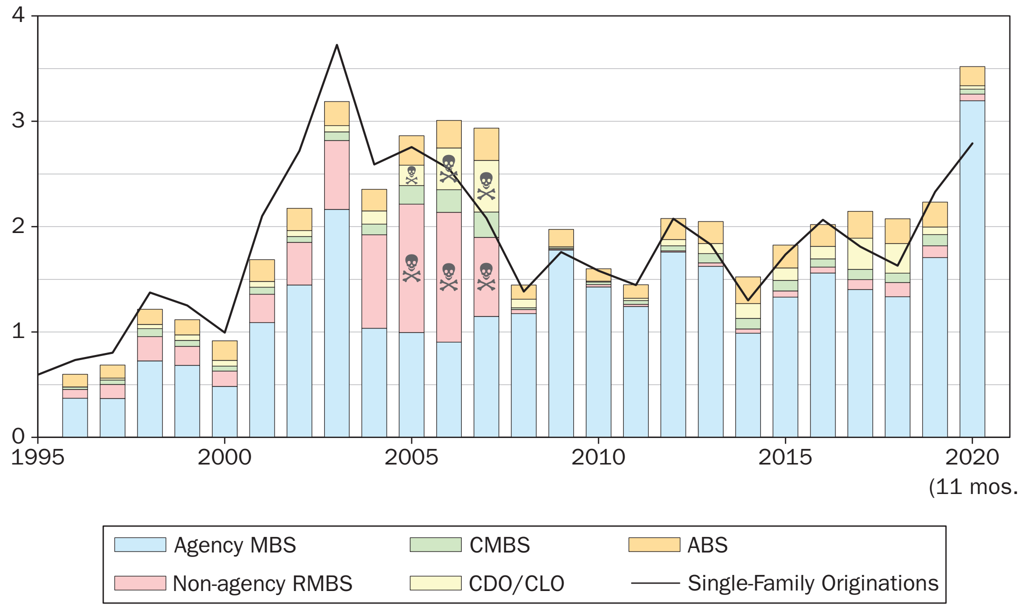
EXHIBIT 3

US Securitization Issuance Volume ($ trillions)



NOTES: Non-agency MBS includes prime jumbo, non-prime/subprime, and scratch-and-dent but excludes credit-risk transfer, resecuritizations, and single-family rental. Agency MBS includes single-family and multifamily pass-through securities but excludes CMOs/REMICs. CLOs include resets and refinancings. Non-agency MBS and CDO vintages with extremely poor performance are marked with the skull and crossbones symbol (☠). Single-family originations for 2020 are through September only.

SOURCES: SIFMA; Mortgage Market Statistical Annual 2019, p. 4; Ben Eisen, *Mortgage Originations Are on Pace for Best Year Ever*, Wall Street Journal (10 Dec 2020), https://www.wsj.com/articles/mortgage-originations-are-on-pace-for-best-year-ever-11607596201.

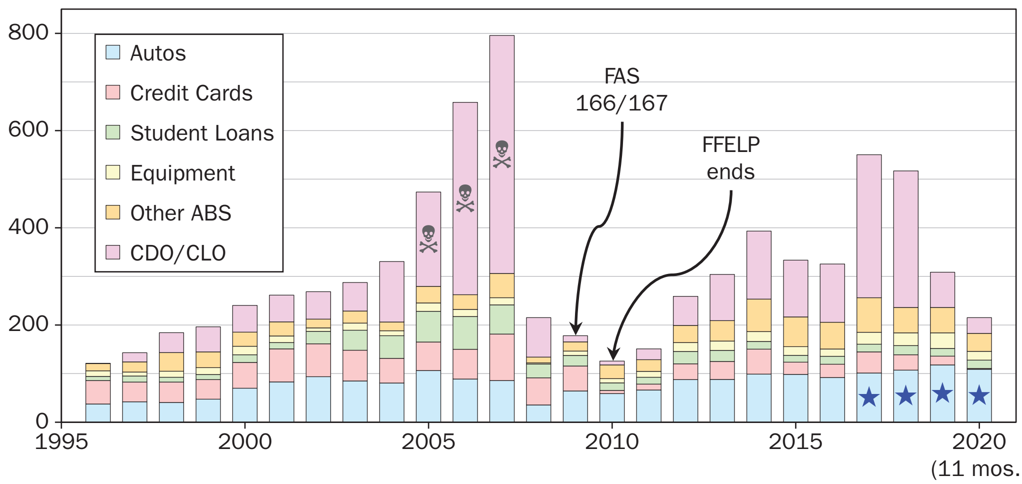
flow for a long time. Credit card ABS issuance has been diminished since the 2009 change in accounting treatment from FAS 166/167. Student loan ABS issuance has been declining since the end of the FFELP program in 2010. The CLO sector had great years in 2017 and 2018, but activity for the past two years has been more tepid.

Perhaps the biggest takeaway from Exhibit 4 is the total level of non-mortgage securitization activity. It will likely be lower for 2020 than it has been for any year since 2011. Putting auto ABS to the side highlights the issue even more sharply.

Looking at things from the mortgage side paints a darker picture (Exhibit 5). Single-family non-agency MBS issuance has been depressed for more than a decade. It has never recovered from the Mortgage Meltdown and the ensuing Financial Crisis. In fact, from 2008 until now, annual non-agency issuance of single-family MBS has remained below its level in 2000. Moreover, as shown on Exhibit 5, lots of single-family mortgage loans are getting originated but not securitized. This somewhat undercuts the argument that non-agency MBS activity was being suppressed by the voracious appetites of the agencies. That may have been true from 2008 through 2013, but it seems pretty clearly not to have been the case from 2015 onwards. For the past several years, a good share of single-family mortgage loan production

EXHIBIT 4

US Non-Mortgage Securitization Issuance Volume ($ billions)



NOTES: CLOs include resets and refinancings. CDO vintages with extremely poor performance are marked with the skull and crossbones symbol (☠). Recent auto ABS vintages over $100 billion are marked with a blue star (★).

SOURCE: SIFMA.

has landed on balance sheets rather than in securitization pools. While some portion of loan production invariably ends up on bank balance sheets, having too much there is a problem for the securitization industry because it challenges the basic arguments in favor of securitization. We like to say that securitization—including non-agency securitization—lowers the cost of credit and improves the availability of credit. We claim that it produces these benefits by 1) matching asset and liability cash flows, 2) lowering funding costs through the issuance of high-quality securities, and 3) improving liquidity for securitization issuers by reducing their dependency on traditional borrowing. Such claims will start to sound hollow if the industry produces only a meager flow of volume.

But there should be more non-agency securitization activity. The benefits of securitization are real. It is not just an accounting gimmick or a regulatory arbitrage. The steady flow of auto ABS seems to prove the point. And, while regulatory and accounting changes may explain lower activity levels in the credit card and student loan sectors, they do not explain what is happening in the areas of non-agency MBS or CLOs. Weak investor protections seem to be an issue holding back non-agency MBS and the weakening of loan covenants appears to be hurdle for new CLOs. Now is the time for both sides of the market to embrace practices and deal structures that promote efficiency and optimal allocations of risk. The idea of securitization should be to lower the cost of investing relative to buying whole loans. Doing that will be necessary for it to remain relevant in the long run.

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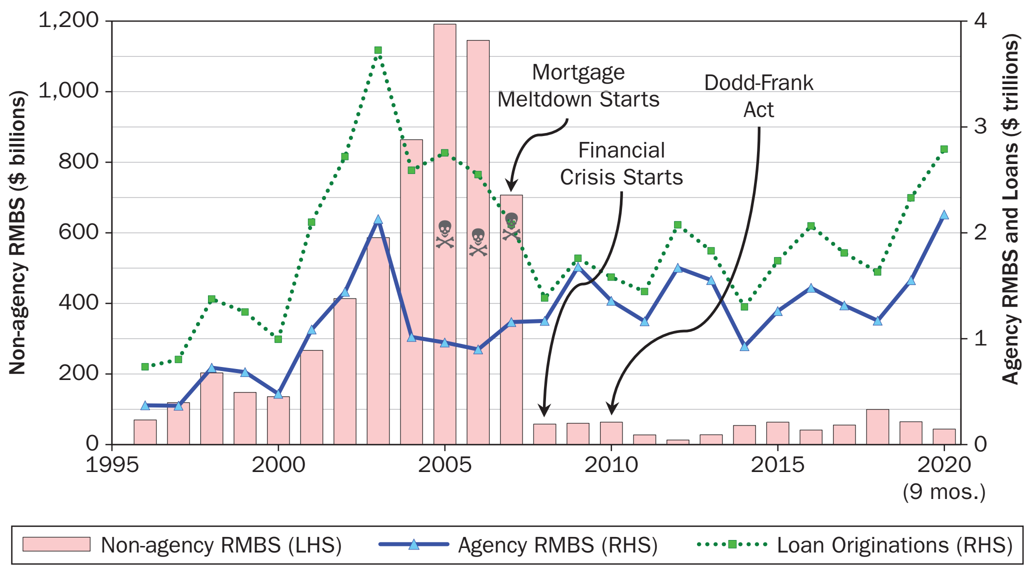
EXHIBIT 5

US Single-Family RMBS Securitization Issuance Volume



SOURCES: Ginnie Mae; Fannie Mae; Freddie Mac; Mortgage Market Statistical Annual 2019, pp. 3–4, 85; Finsight (for 2019 and 2020 non-agency MBS); Ben Eisen, *Mortgage Originations Are on Pace for Best Year Ever*, Wall Street Journal (10 Dec 2020), https://www.wsj.com/articles/mortgage-originations-are-on-pace-for-best-year-ever-11607596201. Non-agency MBS vintages with extremely poor performance are marked with the skull and crossbones symbol (☠).

As usual, this issue includes highlights from *GlobalCapital* and a selection of industry news items from the Structured Finance Association, in both cases covering Q4 2020.

We welcome your submissions. Please encourage those you know who have good papers or who have made good presentations on structured finance- or project finance-related subjects to submit them to us.

Submission guidelines can be found at https://jsf.pm-research.com/authors. If you have comments or suggestions, you can e-mail me directly at M.Adelson@PageantMedia.com.

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