



Fitch Ratings

# Structured Finance Ratings: Fitch's Coronavirus Response So Far

September 2020

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## Negative Actions in August Led by US Sovereign Outlook Revision

**Coronavirus Rating Action Tracker for Structured Finance and Covered Bonds**

Each week, we publish a tracker of all structured finance and covered bond rating actions taken since March 2020. The Excel file is available by clicking the link above, it contains line-by-line information for each rated bond, including links to associated rating action commentaries.

### Inside this Report

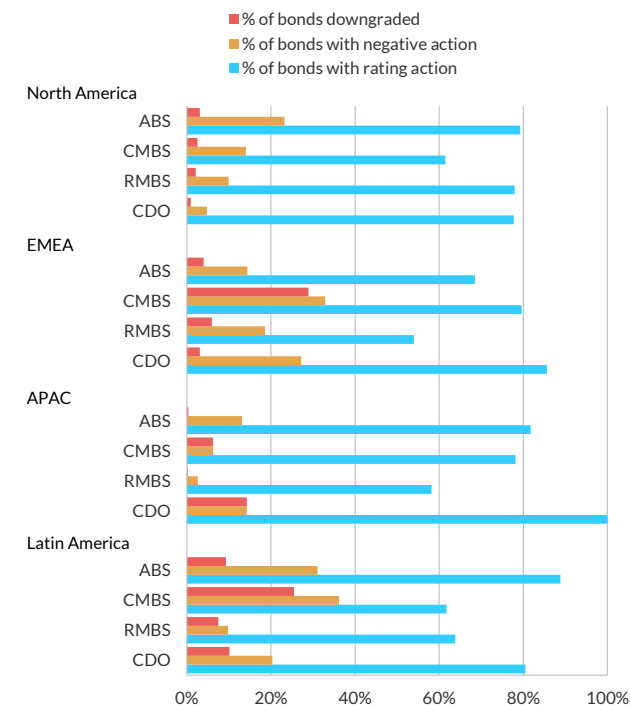
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Fitch Ratings has performed a priority review of about 70% of its publicly rated global structured finance (SF) portfolio since the beginning of March, resulting in downgrades, Rating Watch Negatives or Negative Outlooks to 13% of outstanding bonds. We summarise rating actions, criteria changes and recent research below. This report is published on monthly basis.

Fitch recently updated its [Coronavirus Scenarios](#), with all rating actions will be taken in line with expected trajectories under the baseline scenario. We estimate initial activity bounce in 3Q20 is followed by a slower recovery trajectory from 4Q20 amid high unemployment and further pullback in private-sector investment. As the baseline scenario, we do not expect effective coronavirus vaccine/treatment at scale through 2021.

### SF Portfolio Review since March 2020



Data as of 3 September 2020. Negative actions include Negative Watches, Outlook revisions and downgrades. Source: Fitch Ratings

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## Sector Highlights

### RMBS: Portfolio Revision Under New Stresses Continues

Fitch recently finalised its updated RMBS assumptions across the globe (see page 6). It expects that up to 7% of its rated US RMBS portfolio could face negative rating pressure as a result of the revised assumptions and vulnerable classes have been placed on Rating Watch Negative (RWN). We have proactively used RWN in EMEA and APAC, flagging more than 250 classes at risk. As a result, 13% of the Fitch-rated RMBS portfolio globally is now on Negative Outlook or RWN, up from 5% pre-pandemic.

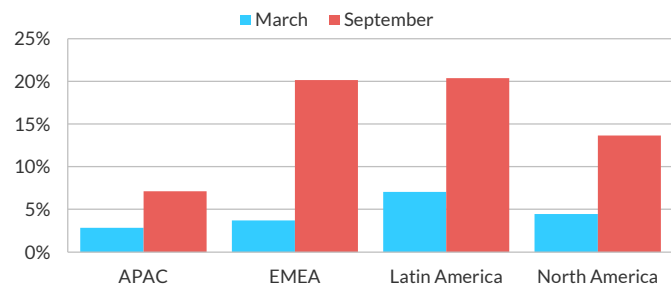
Fitch expects to review outstanding rated RMBS with the updated criteria in the next six months. The agency will continue to monitor delinquency performance and the take-up on forbearance and other relief measures that could be masking performance (see our recent [Misaligned Borrower Relief Means Downgrades for Some U.S. GSE CRT RMBS](#)).

### ABS: Pressure on Asset Performance

Consumers are not immune to the economic shock despite the unprecedented governmental support and availability of payment holidays – we highlighted the increase in delinquencies for [European Auto ABS](#) and [Credit Card ABS](#). ABS student loan transactions subject to US federal government support now mirror the Negative Outlook on the Sovereign rating (see next page). For North American marketplace lending (MPL) platforms, we recently published [High MPL Payment Deferral Take-Up Presage Trust Credit Losses](#).

The sharp economic contraction caused by the pandemic will lead to significant performance degradation and collateral value decreases in some ABS sectors. We continue to monitor the risks to travel-related sectors like [aviation ABS](#) and [rental car ABS](#) – those sub-sectors have had the largest share of downgrades.

### Share of SF Ratings on Rating Watch Negative or Outlook Negative by Region



Source: Fitch Ratings

### CMBS: Delinquencies Jump by Record Amount

Lockdowns have been lifted, but continued social distancing means there is little short-to-medium prospect for hotel and retail sectors to overcome extreme income suppression. Fitch recently published [Coronavirus Causes U.S. CMBS Defaults to Spike in 2Q20](#), with hotel and retail properties representing the largest concentration of defaults in 1H20. Fitch has also started to track whether the loans that were anticipated to default based on their debt service coverage ratios are actually the loans that are defaulting: see details in [CMBS Coronavirus Loan Defaults Vs. Fitch Ratings' Expectations](#).

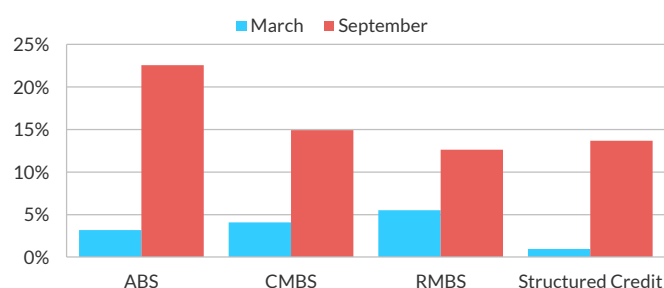
EMEA CMBS transactions with significant retail sector exposure will be heavily reliant on liquidity support in the coming months until rent collections stabilise, see [How Lockdown Has Affected Retail CMBS](#).

### CLO: Credit Quality Deterioration Slows

US CLO 'CCC' exposure eased in recent months; drivers to the reduction include positive rating actions, which were primarily resolutions of RWNs, credit risk sales and defaults of issuers previously at that rating level (see the recent [U.S. Leveraged Finance and CLO Weekly \(U.S. High-Yield Defaults Decline in August; U.S. CLO 'CCC' Exposure Eases in July\)](#)). We further highlighted [US High-Yield Defaults Decline in August](#).

The deterioration of the credit quality of the portfolio backing European CLOs also slowed during July, see [European CLO Index: End of July Market Update](#).

### Share of SF Ratings on Rating Watch Negative or Outlook Negative by Sector



Source: Fitch Ratings

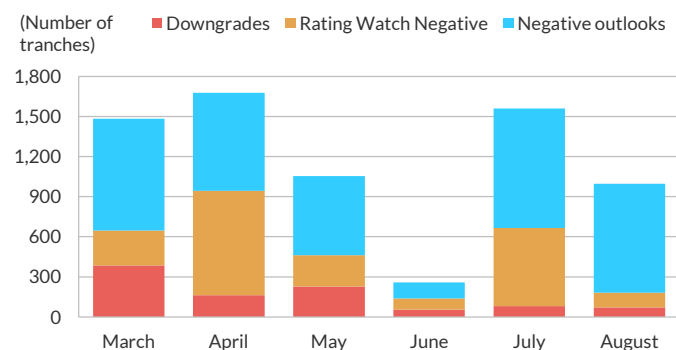
## Ratings Activity

### Negative Actions in August Led by US Sovereign Outlook revision

The number of US SF bonds on Negative Outlook increased significantly last month. Those actions follow Fitch's revision of the Outlook on the US sovereign rating to Negative, with the ABS student loan transactions under US federal government support and CMBS transactions subject to the Freddie Mac guarantee.

On 31 July 2020, Fitch affirmed the rating of the US at 'AAA' but revised the Rating Outlook to Negative because of the deterioration of US public finances and the absence of a credible fiscal consolidation plan. Consequently, we revised Outlooks to Negative for more than 200 Federal Family Education Loan Program (FFELP) student loan transactions (see example [Rating Action Commentary](#)) and more than 80 US agency CMBS transactions tied to the rating of Freddie Mac (see the associated [Rating Action Commentary](#)).

### Negative SF Rating Actions Since March 2020



Note: Rating Watch Negative means that a review will be conducted within six months. Negative Outlook indicates the direction a rating is likely to move over a one- to two-year period.

Source: Fitch Ratings

### Downgrades Are Still Limited

Only 2.6% of the outstanding portfolio has been downgraded since 1 March. Ratings downgrades have primarily affected aviation ABS, rental fleet ABS, FFELP student loan ABS, CMBS with exposure to retail and hotels, and RMBS. Non-investment-grade tranches have been the most affected: three fourths of downgrades were rated 'BBsf' and below. No 'AAAsf' rated tranches were downgraded below the non-investment-grade threshold (see table below), nor have any investment-grade tranches moved to default.

See [Strong Structured Finance 2019 Rating Performance Reversing in 2020](#) for the dynamic of negative actions in historic context.

#### Rating Transitions So Far

	% AAA DGs <sup>a</sup>	% AAA DG to Non-IG <sup>a</sup>	% IG DGs <sup>b</sup>	% IG Defaults (Dsf) <sup>b</sup>	% Non-IG Defaults (Dsf) <sup>c</sup>
<b>By region</b>					
North America	0.2	0.0	0.8	0.0	1.0
APAC	0.0	0.0	0.2	0.0	0.0
EMEA	0.6	0.0	4.4	0.0	0.0
Latin America	0.0	0.0	6.0	0.0	3.6
<b>By sector</b>					
ABS	1.1	0.0	2.7	0.0	0.0
CMBS	0.3	0.0	1.4	0.0	0.0
RMBS	0.1	0.0	1.2	0.0	1.2
CDO	0.0	0.0	1.0	0.0	0.7

Notes: DG - Downgrade in time period between 1 March - 3 September 2020. IG - investment grade

<sup>a</sup> Percentages refer to the share of downgraded ratings among all Fitch 'AAAsf' ratings within respective region/sector.

<sup>b</sup> Among all SF IG ratings.

<sup>c</sup> Among all SF Non-IG ratings.

Source: Fitch Ratings

## Research Highlights

Below are links to Fitch's coronavirus research published after 1 August. For a summary of earlier reports, please see [Structured Finance Ratings: Fitch's Coronavirus Response So Far \(August 2020\)](#).

	Date
<b>Global SF</b>	
Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update	8 Sep
Global Economic Outlook - September 2020	7 Sep
Strong Structured Finance 2019 Rating Performance Reversing in 2020	31 Aug
Global Structured Finance 2019 Transition and Default Study	31 Aug
U.S. 'Flip Clause' Court Decision a Positive Signal for Structured Finance	19 Aug
Structured Finance Negative Actions Led by RMBS and EMEA CLOs in July	3 Aug
<b>Global Covered Bonds</b>	
Fitch Ratings Sees Mitigants to Residential Mortgage Risks from Coronavirus Pandemic	8 Sep
No Covered Bonds Issuer Downgrades in August 2020	2 Sep
Covered Bonds Protection Dashboard (Excel)	2 Sep

<b>North America</b>	
<b>RMBS</b>	
Misaligned Borrower Relief Means Downgrades for Some U.S. GSE CRT RMBS	24 Aug
<b>ABS</b>	
U.S. Credit Card ABS Payment Rate and Chargeoff Improved	8 Sep
Fitch Rtgs Launches MPL Monitor; DQs Could Spike as Other Payments Take Priority	8 Sep
Used Car Supply, Dampened Demand To Pressure Auto Lease ABS	3 Sep
Aircraft Lessors Face Higher Impairment Risk with Widebody Aircraft	28 Aug
High MPL Payment Deferral Take-Up Presage Trust Credit Losses	20 Aug
Canadian Credit Card ABS Performance Mixed in 2Q20	13 Aug
Credit Card Compare - North America	11 Aug
U.S. Credit Card ABS Tear Sheet	7 Aug
<b>CMBS</b>	
US CMBS Delinquencies Fall in Aug; Coronavirus Increases Special Servicing Volumes	8 Sep
Fitch Ratings Maintains the Rating Watch Negative for U.S. Single-Borrower Hotel CMBS	3 Sep
CMBS Coronavirus Loan Defaults Vs. Fitch Ratings' Expectations; July Update	25 Aug
Coronavirus Causes U.S. CMBS Defaults to Spike in 2Q20	20 Aug
Coronavirus Highlights Data Transparency Need in Single Family Rental	17 Aug
Coronavirus Pushes \$35.5B of US CMBS to Special Servicing in 2Q	17 Aug
Coronavirus Curtails Refinanceability of Near-Term Maturing U.S. CMBS	13 Aug
6-Year High for US CMBS Delinquencies; Coronavirus Fuels Higher Special Servicing Volume	7 Aug
New Ratings Unlikely for U.S. Single-Borrower Hotel CMBS due to Coronavirus-Related Volatility (Hotel Performance Down Across All Tiers)	6 Aug
<b>CLO</b>	
U.S. Leveraged Finance and CLO Weekly (Default Volume in August Decelerates; U.S. CLO Refi Activity Up, but Different)	31 Aug
U.S. Leveraged Finance and CLO Weekly (U.S. High-Yield Defaults Decline in August; U.S. CLO 'CCC' Exposure Eases in July)	24 Aug
US CLO 'CCC' Exposure Eases in July on Rating Actions, Sales	21 Aug
U.S. Leveraged Finance and CLO Weekly (Energy's Continued Bankruptcy Stress; Lien Jumping and Collateral Passing)	17 Aug
U.S. CLOs Log More Losses in July	13 Aug
U.S. Leveraged Finance and CLO Weekly (CLOs Overcollateralization Cushions Erode; Size, Sector Drive Trend Variance in EMEA Leveraged Credit)	10 Aug
US Middle Market CLO Test Failures Rise Amid Coronavirus Pressures	3 Aug

### Credit Hotspot: Payment Holidays a Performance Metric for European RMBS

The adoption of forbearance measures significantly differs across European countries. Payment holidays provide a leading indicator of European RMBS performance, as we highlight in the special report available by clicking the link above.

In the UK, which has the highest proportion of payment holidays, the initiative has been led by regulators and is available to all borrowers on a self-certified basis. This has led to a material proportion of borrowers electing to take up this option, even when this solution may not have been strictly necessary to prevent a borrower falling into arrears. Stricter eligibility conditions made access more difficult in Spain, Portugal and Italy, while in the Netherlands lenders' scrutiny upon request and possible negative consequences for borrowers' credit profiles may explain the lowest number of payment holidays granted in the sample considered.

EMEA RMBS Payment Holiday Take-up Rates

Fitch-rated transactions

(%) Median payment holiday take-ups Maximum



<b>EMEA</b>	
<b>RMBS</b>	
Payment Holidays a Performance Metric for European RMBS	5 Aug
<b>ABS</b>	
European Credit Card ABS Performance Indicators Showing Early Stress	20 Aug
European Auto ABS Index Shows Large Increase in Delinquencies; Losses Remain Stable	18 Aug
UK Inflation Methodology Change Credit-Positive for ICSL ABS	7 Aug
UK Auto ABS Payment Holiday Benefit May Outweigh Lower Recoveries	5 Aug
<b>CMBS</b>	
Weak Rent Collections Will Test EMEA Retail CMBS Liquidity	20 Aug
<b>CLO</b>	
Fitch EMEA SME CLO Compare - September 2020	8 Sep
Payment Frequency Mismatch Widens in European CLOs	7 Sep
European CLO Index Performance Continues to Stabilise	4 Sep
Fitch Ratings European CLO Index: Credit Quality Deterioration Slows in July	6 Aug
<b>APAC</b>	
Payment Holidays Stable in Australia and NZ Cover Pools; Interest-Only Rising in NZ	31 Aug
Chinese ABS, RMBS Delinquencies Improve; Not Yet Stable	18 Aug
Collection Stresses Ease for Indian ABS Transactions	27 Aug
Chinese Auto ABS Shows Resilience Amid Pandemic; Headwinds Remain	7 Aug
<b>Latin America</b>	
New Law Bolsters Brazil Payment Arrangement Securitizations	12 Aug
Brazil RMBS: Criteria Assumptions Updated Due to Pandemic Impacts	10 Aug

## Webinars & Conferences

IMN Virtual Investors' Conference on LIBOR	29 Sep
Global ABS 2020: The Global ABS Industry Goes Virtual	15-17 Sep
The Euromoney ECBC Virtual Covered Bond Congress 2020	9-10 Sep
CLO Symposium 2020	8 Sep
European RMBS Pulse: Payment Holidays Become a Performance Metric	5 Aug

## Criteria Updates

### CLOs and Corporate CDOs Ratings Criteria: Feedback Requested

Fitch is requesting market feedback on an [exposure draft](#) of its *CLOs and Corporate CDOs Rating Criteria*. A summary of changes could be found [here](#). The proposed changes are not expected to have a rating impact on any CLOs.

### RMBS: Assumptions Updated Due to the Pandemic

Fitch has finalised its [U.S. RMBS Coronavirus-Related Analytical Assumptions Criteria](#) and [EMEA RMBS: Criteria Assumptions Update](#) for analysing RMBS transactions for the duration of the health and economic crisis caused by the coronavirus. For Latin American and APAC, we have published commentaries on specific countries (see reports for [Australia and New Zealand](#), [Brazil](#), [Colombia](#), [Chile](#), [La Hipotecaria](#) transactions). The crucial points are the revision of 'Bsf' rating stresses to incorporate increased loss expectations resulting from the revised base-case macroeconomic scenario and the application of minimum delinquency amounts/arrears adjustment up to the historical steady states. For specific cases where certain risks are more pronounced, the agency further reviewed its house price declines (e.g. Italy and Spain) and introduced payment holidays stresses in its liability analysis for the countries with high take-up rates.

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