

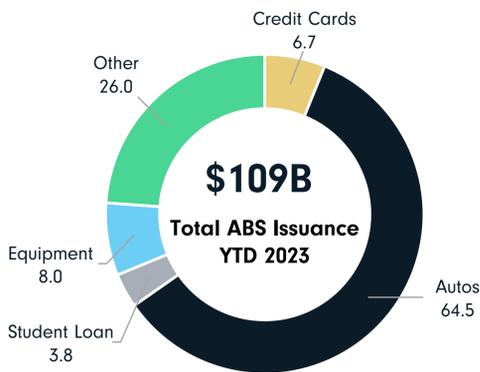
Securitization in Focus

May 2023

Asset-Backed Securities (ABS)

New issue volume totaled \$30.6 billion in May 2023

- Only \$3 billion short of the record for the month of May
- The 12th time volume for any month exceeded \$30 billion



Debt Ceiling Deal to Include Student Loan Forgiveness

As part of the debt ceiling deal, the Biden Administration agreed to restart repayment on Federal Direct and federally-held FFELP student loans after August 29, regardless of how the Supreme Court rules on the plan, which is expected in June. This ends a three-year long pause on repayments and could be a negative credit event for consumer ABS.

Delinquencies — May (month-over-month)



Auto loan 30+ day delinquencies increased in May.



Personal loan ABS performance improved for the third straight month.



Residential Mortgage-Backed Securities (RMBS)

FDIC Liquidation of Silicon Valley Bank and Signature Bank Agency MBS — Update

| | | |
|--|--|--|
| 31% Portion of agency portfolio sold | \$2B to \$2.5B Expected weekly pace of MBS | \$400MM to \$500MM Expected weekly pace of CMO |
|--|--|--|

Fannie Mae/Freddie Mac Credit Score Model and Credit Report Requirement Changes

1. Lenders will be allowed to use a minimum of two rather than three credit reports when completing applications beginning Q1 2024.
2. The government sponsored enterprises (GSEs) will require credit scores from the new FICO Score 10 T and VantageScore 4.0 models for all borrowers beginning Q4 2025.

LIBOR Out, SOFR In (Officially)



Sources: Deutsche Bank, Bank of America.

The views expressed are those of Diamond Hill as of June 2023 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal. Past performance is not a guarantee of future results.

Commercial Mortgage-Backed Securities (CMBS)

New Issuance Breakdown — YTD (%)

| | Single Asset Single Borrower (SASB) | | Conduit | |
|-------------|-------------------------------------|---------|---------|---------|
| | 2023 | 10Y Avg | 2023 | 10Y Avg |
| Retail | 8.0 | 5.7 | 28.0 | 24.6 |
| Office | 13.0 | 29.5 | 24.0 | 31.2 |
| Hotel | 29.0 | 31.9 | 10.0 | 14.9 |
| Multifamily | 10.0 | 4.6 | 8.0 | 12.2 |
| Industrial | 29.0 | 9.5 | 19.0 | 6.9 |
| Other | 11.0 | 19.1 | 10.0 | 10.1 |

\$5.7B in May
Private label issuance evenly split between Conduit and SASB.

\$11.5B in May
Agency CMBS issuance, the highest monthly amount so far in 2023.

Delinquency Rates (%) (MoM)

| Sector | 30+ day delinquencies |
|--|-----------------------|
| Single Asset Single Borrower (SASB) | |
| Office | ↑ 2.5 |
| Retail | ↑ 0.6 |
| Multifamily | ↓ 0.9 |
| Conduit | |
| Office | ↑ 0.5 |
| Retail | ↑ 0.6 |
| Mixed Use | ↑ 0.4 |
| Commercial Real Estate Collateralized Loan Obligations (CRE CLOs) | |
| Retail | ↑ 5.5 |
| Multifamily | ↓ 0.1 |
| Lodging | ↓ 0.2 |

Federal Deposit Insurance Corporation (FDIC) Portfolio Update

Blackrock's Financial Markets Advisory concluded the final round of sales of the FDIC's \$1.5 billion Freddie K (Agency CMBS) bank portfolio. Details regarding the sale of the Ginnie Mae project loan portfolio remain under review by the FDIC and are expected to emerge on or after the week of June 5.

In the News



- The Mall at Tuttle Crossing's (Columbus, OH) appraisal value dropped from **\$240 million in April 2013 to \$29.2 million in April 2023**.
- Park Hotels & Resorts released a statement noting that it has ceased payments on the loan secured with its Hilton San Francisco Union Square and the Parc 55 Hotel San Francisco Hotels. The company stated that it did not make the June payment and does not expect to make any future payments nor repay the loan at maturity.

On 15 Mar 2022, Congress enacted the LIBOR Act which, among other things, directed the Federal Reserve Board to identify a replacement index based on the Secured Overnight Financing Rate (SOFR).

The LIBOR termination date is fast approaching (30 June 2023), but expectations are for a smooth transition outside of some short-term, sector-specific (student loans) volatility.

Also impacting the student loan market is the termination of the payment pause as part of the debt ceiling agreement — payments and interest accruals will ramp up 60 days after June 30.