EUROPEAN DATAWAREHOUSE

CONVERTING DATA INTO MARKET TRUST.

MONITORING THE IMPACT OF COVID-19

PLEASE NOTE: The results published in this report were obtained with the data available as of mid-May 2020 and are thus based on an incomplete data set, as some deals had not yet reported relevant data. Our results can thus be affected by outliers. We intend to update these charts as more data becomes available, and the results may change.

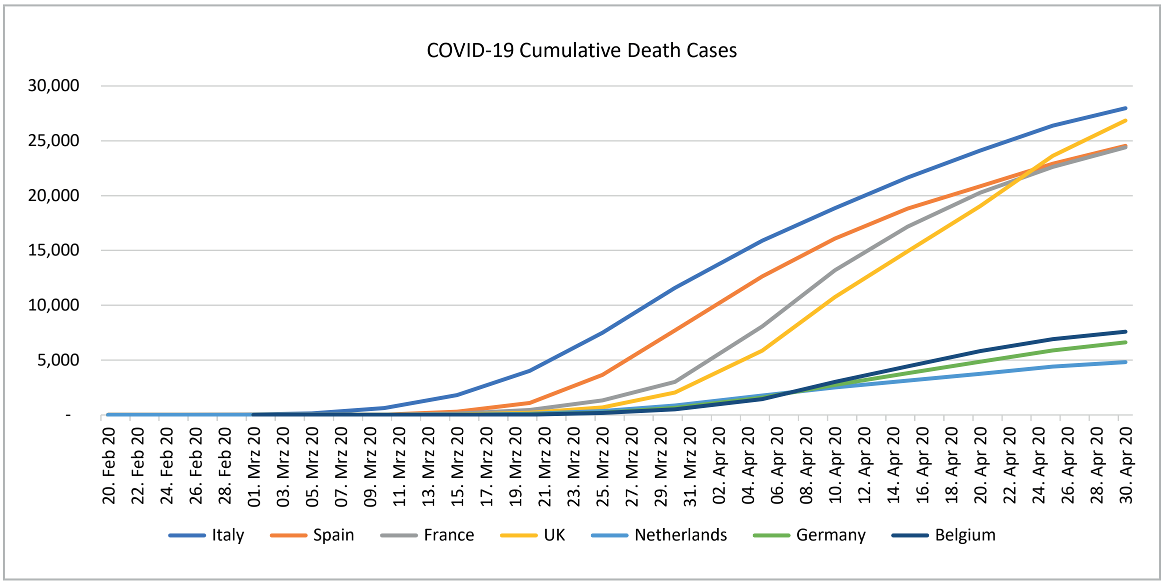
In this short paper, we will show that some of the effects of the COVID-19 crisis already became visible in the Loan Level Data (LLD) dated 31st March 2020.[1]

Most charts in this document will be made available in our COVID-19 Tracker, which we intend to update and complete on a regular basis as more data becomes available. We expect to see delinquencies rise substantially over the next months, and as of end of May, the April data indeed shows soaring arrears in several markets.[2] We also expect that payment holidays and other types of loan modifications will become increasingly visible in our upcoming LLD, given that clear reporting instructions are now available.[3]

Starting from a few cases in early February 2020, COVID-19 spread throughout Europe, forcing governments to enact severe social distancing measures. By the end of April, four of the countries with the greatest number of confirmed COVID-19 deaths in the world were European countries (Spain, Italy, France, UK), with more than 100,000 documented COVID-19 related deaths in total. As the death curves start to flatten (Exhibit 1), the damage to the economy takes centre stage.

1 Loan Level data where the Pool Cut-off Date (PCD) is 31 March 2020 or after
2 Updated charts will be made available in our COVID-19 Tracker
3 See: Special Reporting Guidelines: How To Report Data To Reflect COVID-19 for reporting guidelines during the COVID-19 crisis

Exhibit 1: COVID-19 Related Cumulative Death Cases



Source: John Hopkins University; Worldometer

Most governmental decisions on social distancing were enacted in March 2020.[4] These measures have severely reduced the income of some borrowers from mid-March onwards. Governmental support, when available, was often delayed and often failed to fully compensate for lost income, leaving some borrowers having to pay more than they could afford. To compensate, some borrowers either withdrew on their savings or asked for a credit or payment holiday. Governments have encouraged lenders to grant forbearance measures to help borrowers and soften the blow to the economy.[5] In several countries, it was reported that measures such as allowing a temporary switch to interest only payments or payment holidays have indeed been granted to a substantial number of borrowers. In this respect, our data will make it possible to monitor these changes given that specific reporting guidelines are available to help data providers. We note that for an increasing number of deals, investor reports now explicitly mention the number and amounts of loans modified because of the payment difficulties caused by COVID-19.

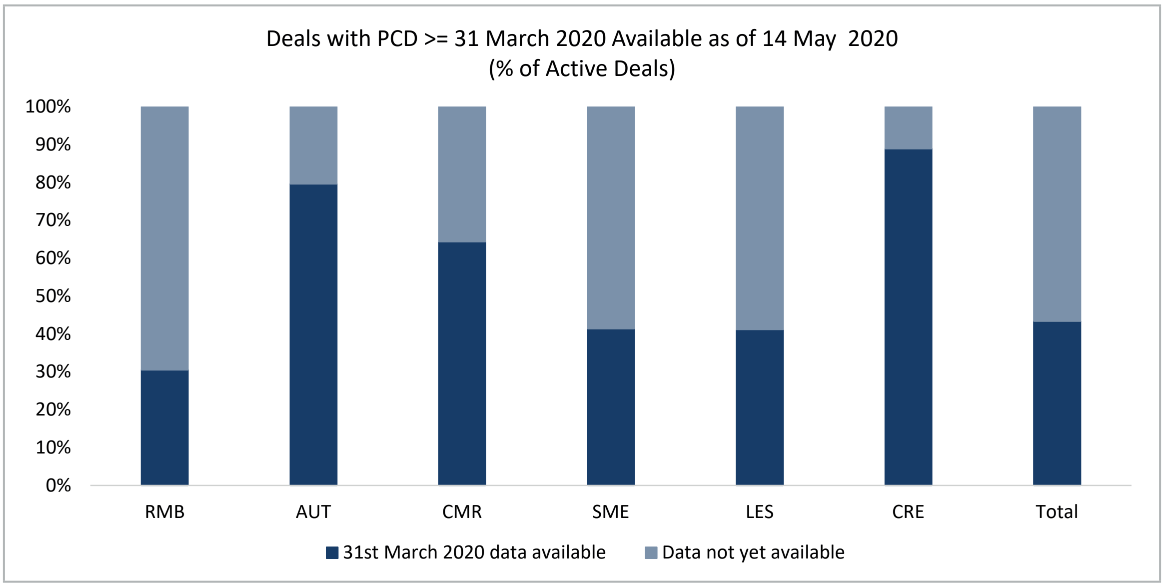
To illustrate data availability, Exhibit 2 shows the share of deals for which we had received data as of 31 March 2020 or later, on 14 May 2020. About two thirds of the LLD available for RMBS deals then, were dated 31 March 2020 and thus only reflect the effect of two weeks of crisis. Data availability depends on the reporting frequency and reporting lag (the difference between the upload date and the Pool Cut-off Date - PCD).[6] We have therefore more data for auto deals, which tend to report monthly than for the quarterly reporting RMBS deals. Also, a deal that would have reported its Q1 2020 data as of 30th March or before may not yet be reflected in these statistics until July 2020 if we account for the effect of the reporting lag. The statistics we will publish until then will therefore be partial information, likely to change as new information becomes available. We will be monitoring deal performance carefully and expect that our data will reflect a severe performance deterioration over the coming months, particularly for certain categories of borrowers, such as the self-employed, the SMEs active in tourism/leisure/catering etc.

4 Confinement enacted in Italy on 9th March, in Spain on 15th March and in France on 17th March

5 See for instance in Ireland

6 Our report on Data Timing and timelines shows that the reporting lag (the difference between the upload date and the pool cut-off date) is typically about one month, with differences depending on the country and the asset class.

Exhibit 2: Data Availability as of 14 May 2020



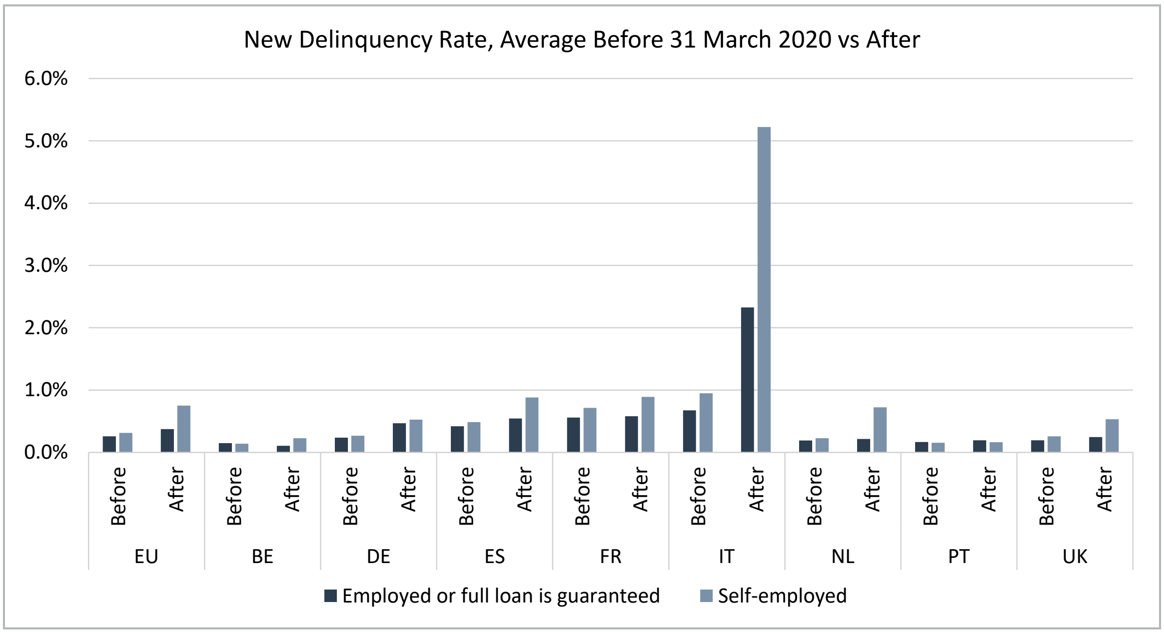
Source: European DataWarehouse

The main performance measure we use in this paper to monitor the first effects of COVID-19 is the new delinquency rate, the proportion of loans that were not in arrears in the previous periods that just entered arrears status.[7] In the charts, this value for the last available data (from 31st March or later), is compared to its average value in the six preceding periods. It therefore excludes loans that would have previously been in arrears for more than one day already, or that would have been in arrears with one missed payment for several periods. By comparison, the usual performance measures (delinquency 60-90 days, delinquency 90+ days) cannot yet be used because the performance deterioration is extremely recent. We expect that a clearer deterioration will be visible when data for end of April 2020 will become available, despite the various support measures announced. These values are likely to change somewhat overtime as we update these charts in our COVID-19 Tracker. We expect a reinforcement of the observed trends, but also, as more deals report data reflecting this situation, the weight of the various deals in the charts should change too. These delinquency measures are intended to be comparable for a given country before vs after 31st March to monitor the impact of COVID, but we believe they may not always be suitable for cross-country comparisons due to differing reporting and deal management practices.

In Exhibit 3, we see a noticeable increase in delinquency for mortgages to self-employed borrowers, even when the increase for employed borrowers is less perceptible at this stage. The deteriorating performance for the self-employed was expected and is even clearer in other exhibits. For this sample of RMBS deals, employed borrowers make up 75% of our sample and the self-employed 15%.

7 To measure the new delinquency rate, we track the amount of loans reported to be in arrears in period T1 that were not in arrears at period T0 and compare this amount to the amount of loans outstanding. To track whether the loans are in arrears or not, we look both at the number of days or months in arrears, and the amount in arrears (the loan is in arrears if either applies). We base our calculations only on deals for which we have received data as of 31 March or later and whose loan identifiers are consistently reported overtime. To look at the increase in delinquency, we compare the proportion of new arrears in the latest LLD as of 31 March, to the average values over the last six periods.

Exhibit 3: New Delinquency Rate in RMBS Deals



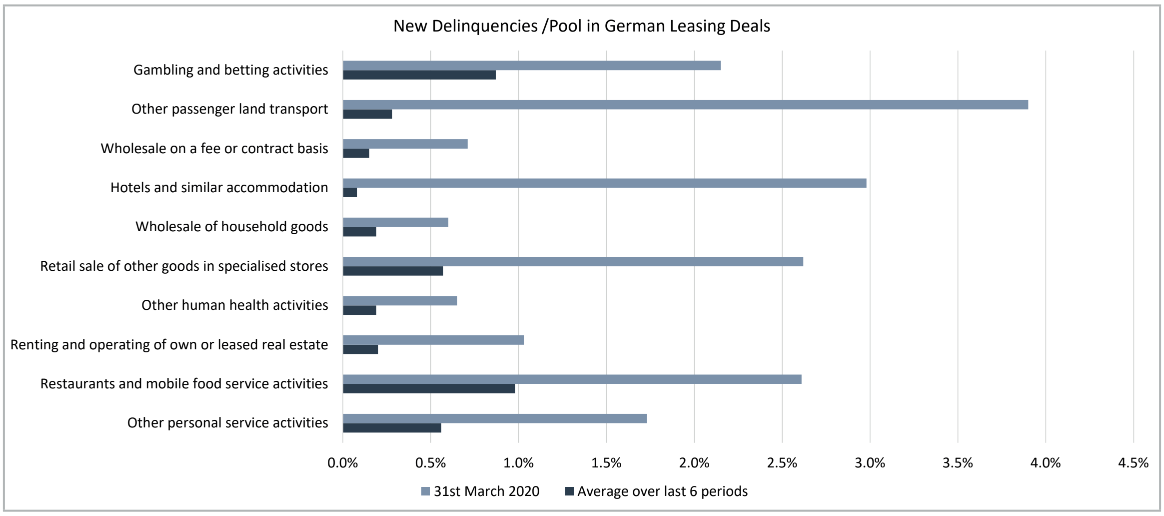
Source: European DataWarehouse; as percentage of total loans; "before" is the average of the new delinquency rate in the data with pool cut-off date prior to 31st March 2020, "after" refers to the new delinquency rate in the LLD containing data as of 31st March or after.

There are substantial differences from country to country but a deterioration in performance for self-employed borrowers is visible in most countries. We expect that this trend will become more prominent as more data becomes available, although we expect that forbearance-induced loan modifications will attenuate this trend. Italy, which was struck earlier and more severely than other countries, shows a severe deterioration of performance already.

Exhibit 4 shows the new delinquency rates for our German leasing deals, all of which are represented with data from 31st March or after in this chart. We selected the industries where the greatest delinquency increases can be observed. As expected, the categories that were directly affected by social distancing measures are the most severely hit. Hotels, restaurants, retail, have thus seen their delinquency levels increase substantially. Less expected is the increase in the "other human health" segment. This is typically one of the non-cyclical sectors, that performed clearly better than the others in the financial crisis and is now also affected. This may appear counter intuitive, but many sources have indeed reported that people have renounced contact with their doctors and therapists for fear of contracting COVID-19. Medical professionals also have, in many cases, limited their activity, especially in the early phase of the pandemic when appropriate protection was not available. The new data reflecting the situation for German leasing deals as of end of April is becoming available and shows an even more severe increase in delinquencies, accounting for more than 10% of total loans, with, as expected, worse performance for the segments "Arts, entertainment and recreation" and "Accommodation and food service activities".[8]

8 We intend to provide an updated version of this chart in our COVID-19 Tracker

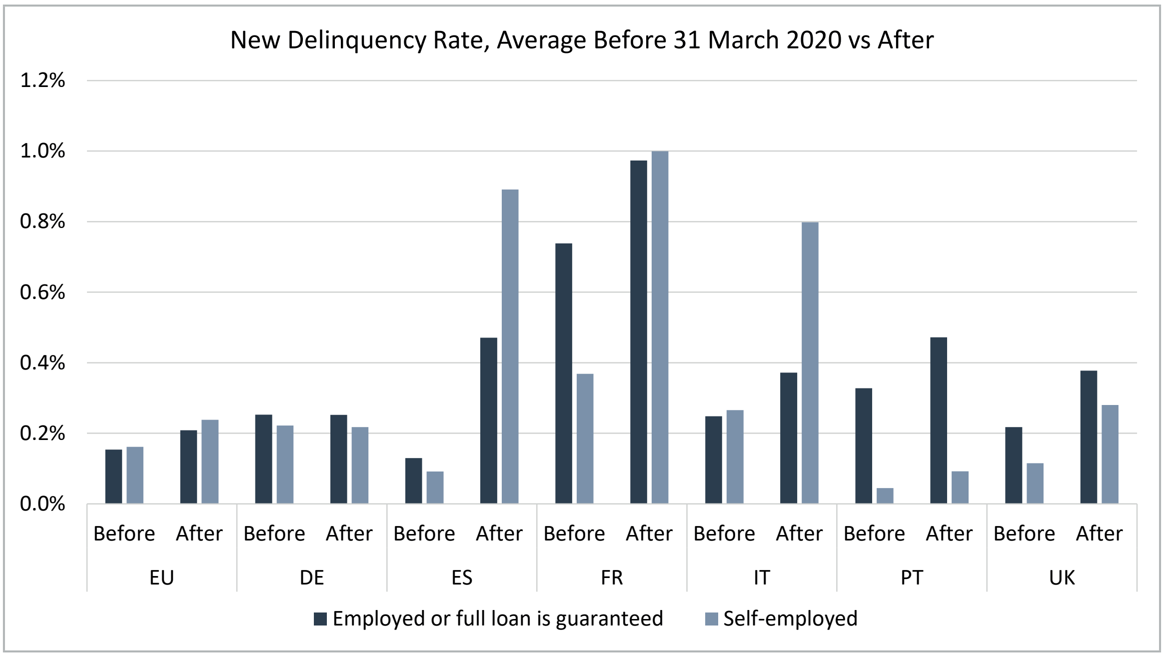
Exhibit 4: New Delinquency Rate in German Leasing Deals



Source: European DataWarehouse; as percentage of total loans; "before" is the average of the new delinquency rate in the data with pool cut-off date prior to 31st March 2020, "after" refers to the new delinquency rate in the LLD containing data as of 31st March or after.

In Exhibit 5, we show the same indicator for auto loans. Except for Germany, the worsening performance is clearly visible, especially for the self-employed. In Spain, France, Italy and the UK, the new delinquency rate has more than doubled for the self-employed.

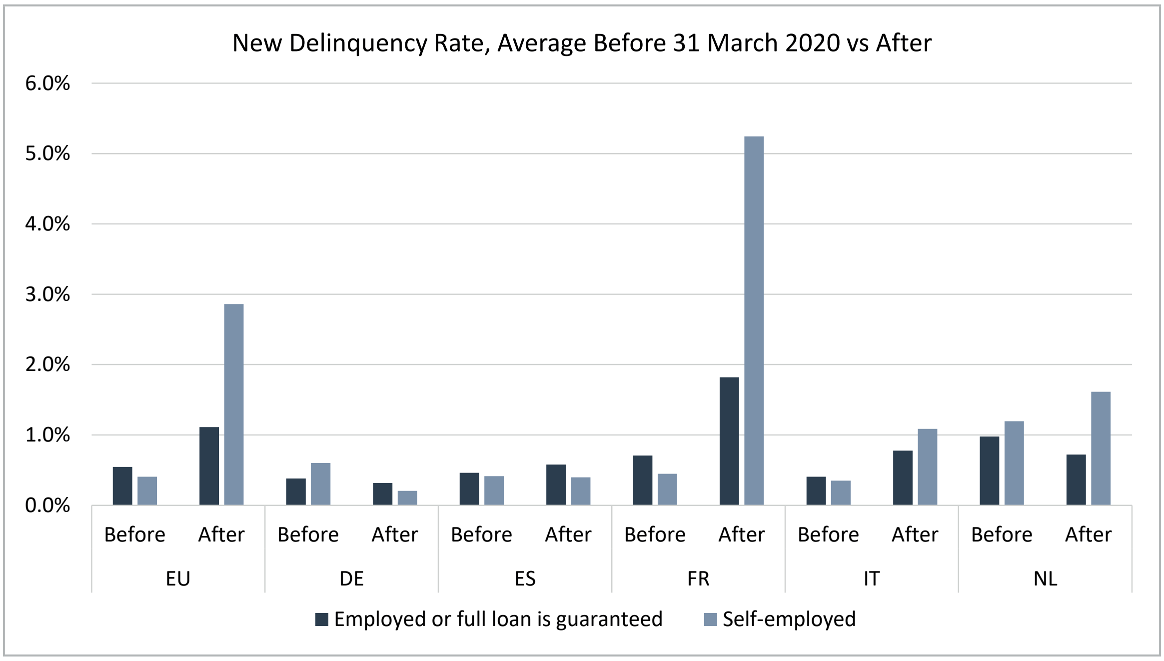
Exhibit 5: New Delinquency Rate in Auto Deals



Source: European DataWarehouse; as percentage of total loans; "before" is the average of the new delinquency rate in the data with pool cut-off date prior to 31st March 2020, "after" refers to the new delinquency rate in the LLD containing data as of 31st March or after.

In Exhibit 6, we see the same indicator for our consumer loans, and we see a noticeable increase in delinquency affecting self-employed borrowers in France, Italy and the Netherlands.

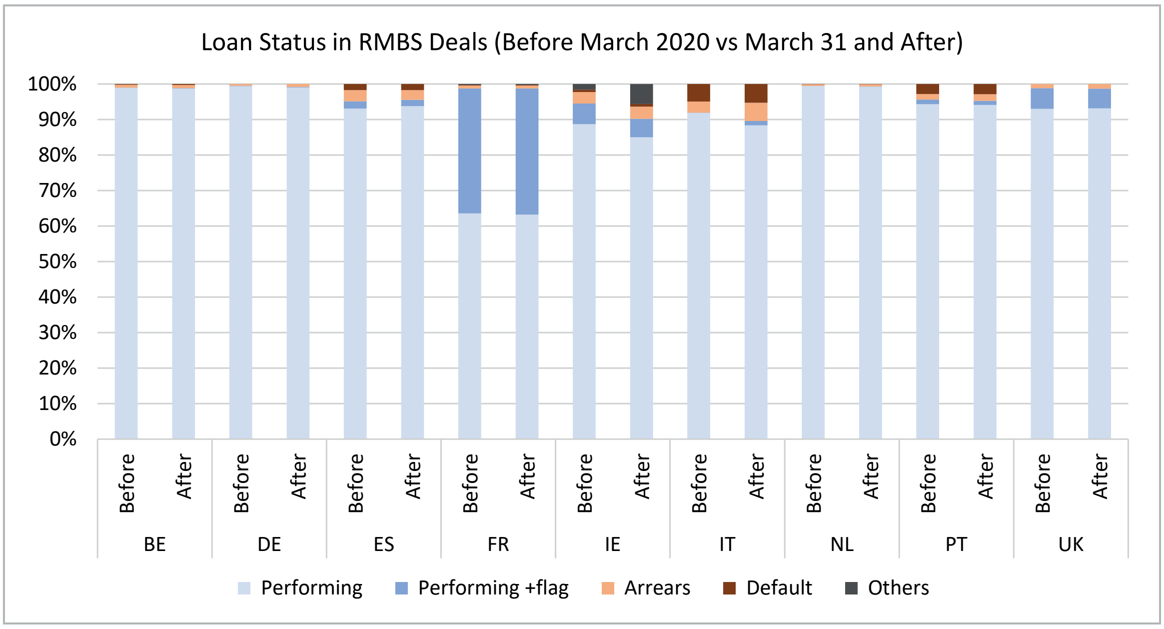
Exhibit 6: New Delinquency Rate in Consumer Deals



Source: European DataWarehouse; as percentage of total loans; "before" is the average of the new delinquency rate in the data with pool cut-off date prior to 31st March 2020, "after" refers to the new delinquency rate in the LLD containing data as of 31st March or after.

It is expected that the crisis will lead to substantial amounts of loan modifications. We used the reporting criteria suggested to flag loan modifications due to COVID-19 to see to what extent these are already visible. In Exhibit 7, we select the RMBS deals that have submitted data as of 31st March 2020 or after and compare the status of these loans with the last LLD available for the same group of deals before March 2020. We expect that the proportion of performing loans for which one type of loan modification will be activated (shown as performing / flag in Exhibit 7) will increase substantially in the next LLD submissions. The only two countries for which a drop in the proportion of performing loans (Account status AR166 = 1) was already visible are Italy and Ireland, with a noticeable increase in the proportion of loans with a performing status flagged as "other" for Ireland and an increase in the arrears and some modified performing loans in the case of Italy. The proportion of loans reporting a payment holiday (AR92 >= 1) is substantial in France, because in some French deals, the field is used to show that there is an option to obtain a payment holiday for these loans rather than an actually effective payment holiday, hence a similar proportion of loans showing a payment holiday before and after the start of the crisis.

Exhibit 7: Loan Status in RMBS Deals



Source: European DataWarehouse; as percentage of total loans; "before" refers to data submitted prior to March 2020 (last LLD before March 2020), for deals for which data is also available as of 31st March 2020 or after (shown as after in the Exhibit). "Performing" refers to loans for which AR166 (account status) = 1; "Arrears" refers to loans for which AR166 = 2; "Default" refers to loans for which AR166 = 3; "Performing / flag" refers to loans with account status 1 but for which either the payment due is zero, or/and the loan is flagged as AR71 (Payment due) = 0, or/and AR92 (length of payment holiday) > 0 or/and AR122 (restructuring arrangement) =Y; "Others" refers to loans flagged as AR166 = 6, "Other" performing status, which can also refer to loans in forbearance. Source: European DataWarehouse; as percentage of total loans; "before" is the average of the new delinquency rate in the data with pool cut-off date prior to 31st March 2020, "after" refers to the new delinquency rate in the LLD containing data as of 31st March or after.

EDW became operational in 2013 in the wake of the 2008 financial crisis to satisfy the need for more transparency in the securitisation market. Our loan-level data will make it possible to assess the effect of the current crisis on securitised portfolios, in a way that would not be feasible looking only at investor reports. The above exhibits are an illustration of what can be found in our data at this stage; as we receive updated data daily, we intend to regularly update and complete this set of charts in our COVID-19 Tracker.

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IMPORTANT DISCLOSURES

For further queries, please contact any of the following analysts or send an email to enquiries@eurodw.eu

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