VINING SPARKS

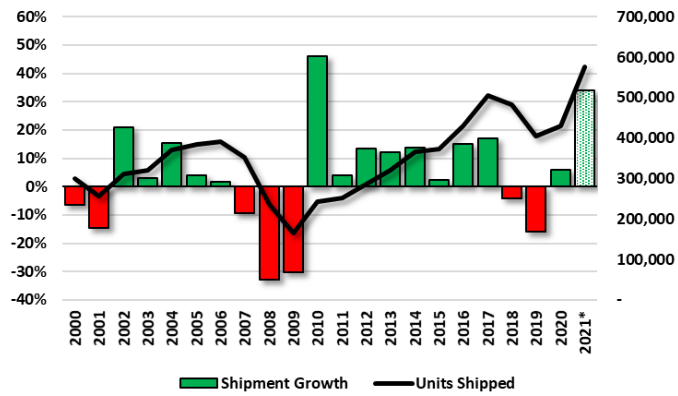
Loan Trading: Recreational Vehicle Market Analysis

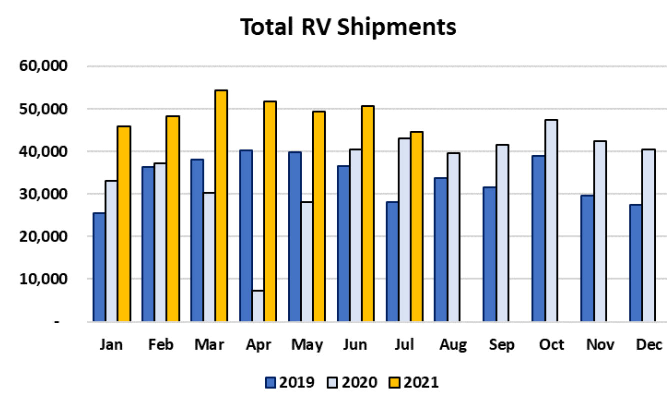
Key Takeaways: **September 15, 2021**

- **RV Shipments set new all-time highs each of the last nine months**
- **Delinquencies remain below pre-pandemic levels**
- **Defaults continue to be relatively stable**
- **Supply/Demand imbalance has pushed pool pricing higher, even as UST rates increase**
- **Sellers are considering strategic sales, as opposed to traditional liquidity/concentration driven sales**

RV INDUSTRY

Historically low interest rates, several rounds of stimulus, and pent-up travel demand all helped contribute to RV shipments ending 2020 with a 6% increase over 2019 and on par with the third best year ever despite shutdowns. Positive momentum has continued so far in 2021 setting new all-time highs in each of the last nine months. The RV Industry Association is forecasting RV shipments to reach an all-time high posting a 14% gain over the previous record set in 2017. Inventory constraints continue, but manufacturers are expanding capacity and are on track to build more RV's this year than any in the industry's history to keep up with record demand.



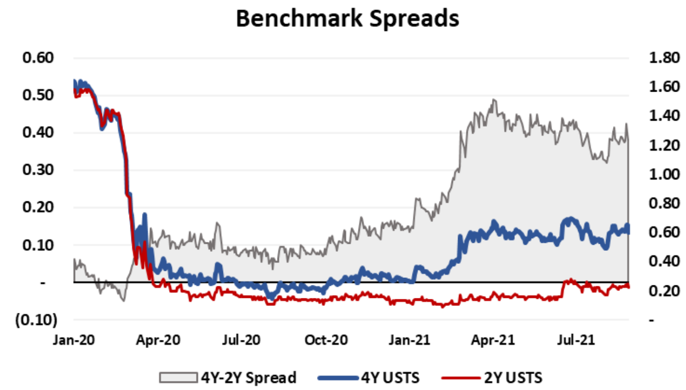


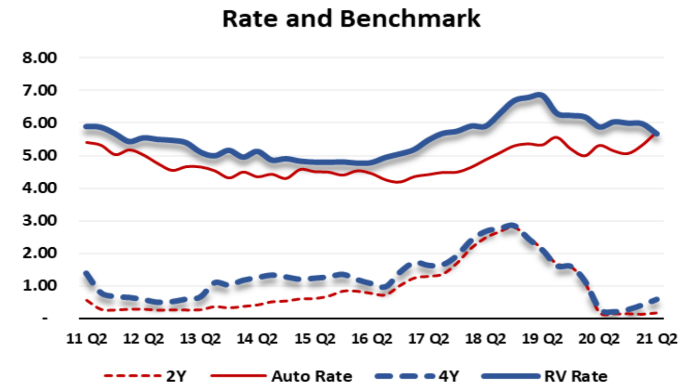
Lenders that have been able to continue producing loans at profitable levels currently have an opportunity to achieve better sale pricing due to the continued supply/demand imbalance as well as increasing but still historically low Treasuries yields.

Rate Environment

RV spreads (average coupon minus 4-year interpolated Treasuries) remained relatively constant from the beginning of 2013 through the middle of 2018 at around 350bp. Since then, UST rates decreased significantly, but lenders have been able to maintain coupons over the same period. This continued low-rate environment has significantly improved spreads to over 500bp and provides lenders an opportunity to continue strengthening the economics of their loan portfolios.

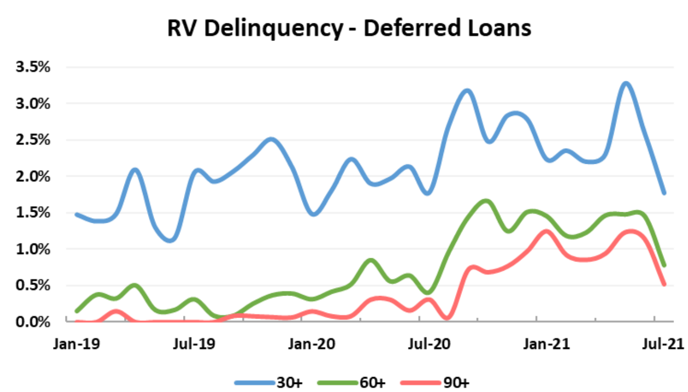
Another important development at the beginning of the year was an increase to the spread between the 2-year and 4-year US Treasuries. After holding stable around 10bp for nearly a year, the difference between these two benchmarks rapidly increased to nearly 50bp, the widest spread since early 2017 when both benchmarks were more than 100bp higher than today. This yield curve steepening will have different implications for RV and auto loan portfolios due to the different parts of the curve their maturities and average lives fall. *This widening spread will be important to monitor going forward, and it may be beneficial to have portfolio reviews done more frequently to stay abreast of market developments and get updated pricing.*

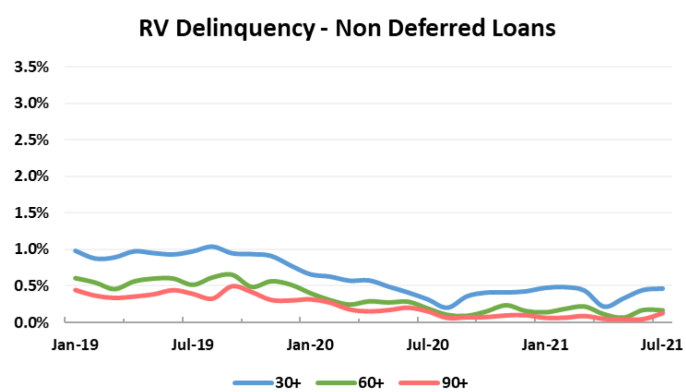




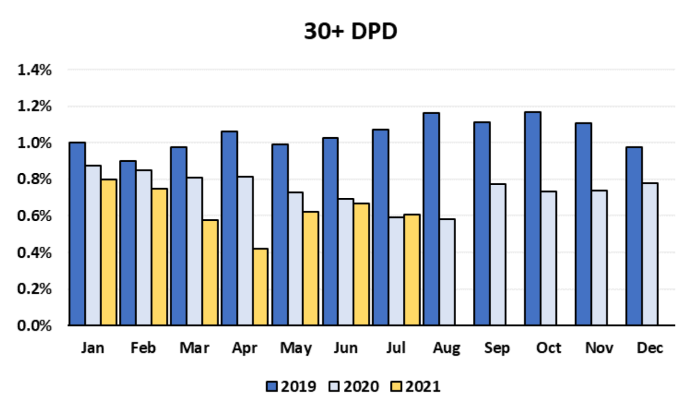
Delinquency and Defaults

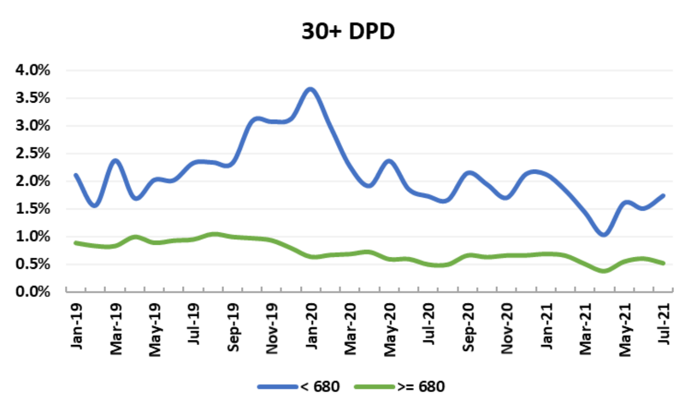
In the charts below, we compare delinquency levels between RV loans that entered deferment at some point during 2020 with loans that did not. Loans that utilized a deferment program had an average credit score of 722 compared to an average score of 751 for loans that did not defer. This difference in credit composition is partly responsible for the difference in 30 day delinquency levels between the two groups prior to the pandemic. Beginning in March 2020 loans that utilized deferment options began to increase in loans 30 day past due, going from 1.3% in February to over 3% in September. Over this same period, delinquency in loans that did not enter deferment declined to record low levels and continue to remain muted. As of this July, delinquencies have returned to prepandemic levels for loans that deferred and remain below prepandemic levels for loans that did not defer. For reference, deferment levels peaked around 4.5% in May, so the vast majority of loans sold by Vining Sparks fall under the no deferments category.



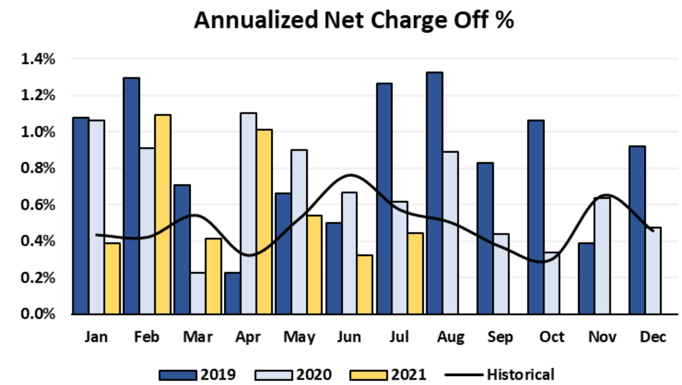


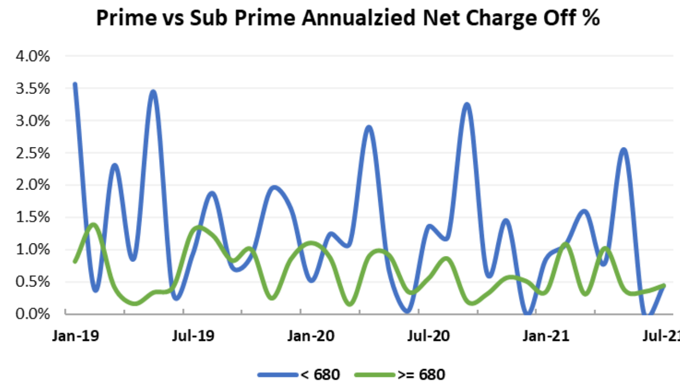
RV loans continue to perform well from a delinquency standpoint across the entire credit spectrum. So far in this year, delinquencies remain flat to slightly lower for credit scores below 680, however for higher credit quality loans, delinquency levels are still at historical lows - well below pre-pandemic levels. We expect the delinquency levels to trend higher for the remainder of the year as seasonal factors play a larger role in delinquency trends post-pandemic. Over 91% of all the RV loans sold by Vining Sparks have credit scores of 680 or greater, and this emphasis appears to have helped to produce greater performance stability than the subprime and broader markets.





Net Charge Off levels were unseasonably high in March and April in 2020 which is likely due to defaults in loans that were already delinquent before the pandemic and ineligible for payment assistance programs. These levels steadily declined through the remainder of the year and have remained below 2019 levels in nearly every month. Like delinquencies, net charge offs levels have declined since 2019 for higher credit tiers and remain relatively stable for lower credit loans.

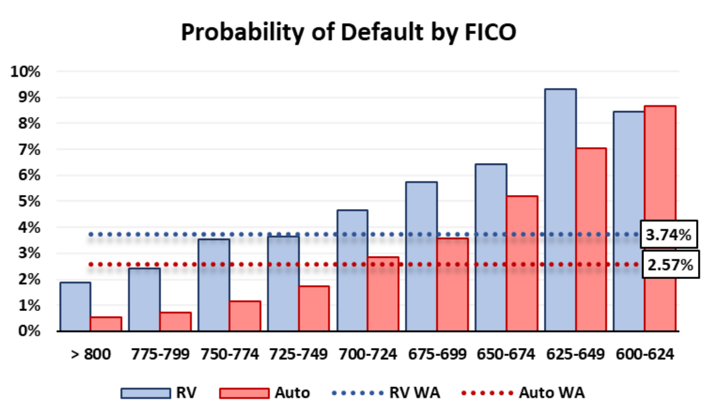


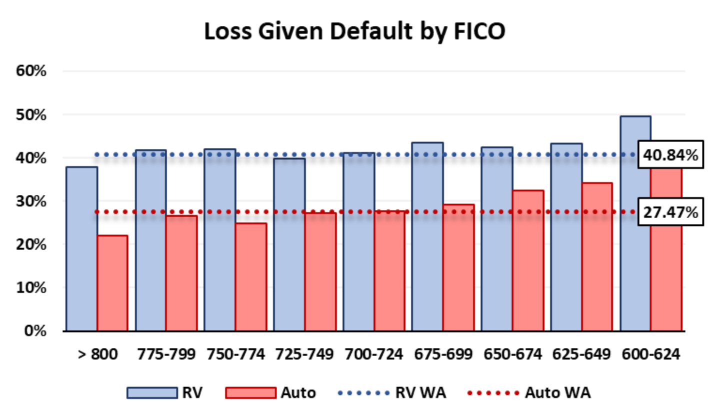


Probability of Default and Loss Given Default

Probability of default is fairly linear and increases as credit score decreases. The weighted average probability of default for autos and RVs are 2.57% vs. 3.74% respectively – see chart below on the left. One key difference is RV's experience higher default rates at the upper end of the credit spectrum (750+ credit scores) as compared to autos. While RV loans may have a higher probability of default for any given credit band compared to autos, it is important to note the higher average credit scores of most RV pools which helps reduce overall pool losses.

As seen in the chart below on the right, loss given default in RVs is significantly higher than what we have seen in autos – 40.8% vs. 27.5% - but are fairly consistent regardless of credit score which is contrast to autos that are more correlated to credit scores. This matters from a loss projection standpoint because despite overall similar probability of default levels on RV pools compared to autos, if the loss given default is elevated, it drives the ultimate loss experience range higher than autos, 0.60 – 0.70% annualized. It will be interesting to monitor loss given default levels for RVs over the near term. Anecdotally, we are hearing from a number of RV lenders that they are receiving significantly higher proceeds at auction for repossessed vehicles – which could create false indicators of better performance as lenders benefit from tight inventories and sharply higher used vehicle pricing.





In summary, RV loan production rebounded strongly in the latter half of 2020, and this momentum has led to all time high levels in 2021. RV loans continue to be a large part of our customers' loan portfolios and a participation class that remains in favor. It is important to stay abreast of market changes in rates and potential credit concerns that may be creeping in and the lingering effects COVID-19 is having on production and performance.

We would welcome the opportunity to assist you in evaluating your portfolio for areas of opportunity or provide additional color on this dynamic market. Take advantage of our complimentary detailed analysis on your loan portfolio to give you a better understanding of how your portfolio composition has developed over time, how your portfolio compares to others in the market, and the current market value of your loans. We would be happy to work with you to develop potential strategies for consideration. Please contact your Account Rep or Vining Sparks Loan Trading to discuss in more detail.

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