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SFA Research Corner

Now You Cap It, Now You Don't—FHFA Actions Added to Record Year for Non-agency RMBS

December 2, 2021

WHAT WE'RE WATCHING

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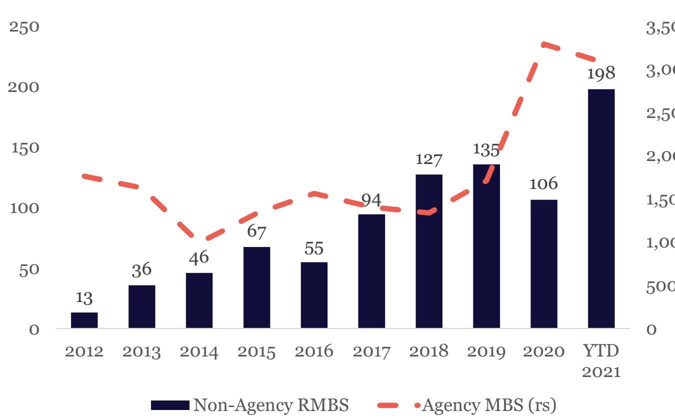
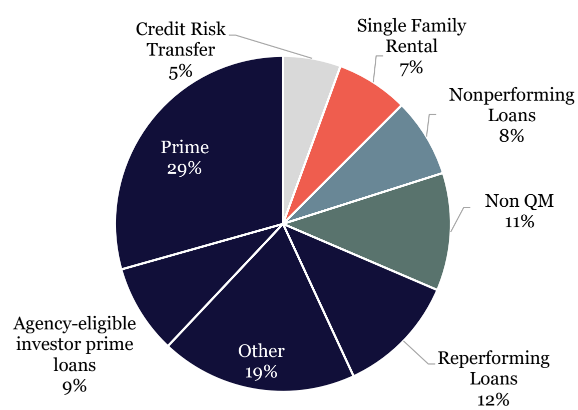
Non-agency RMBS is on track to surpass $200 billion, a record for the sector. With one month to go on the year, $198 billion has been issued. Of that total, $160 billion, or 75%, has come from the core RMBS sectors which includes nonQM, single family rental, reperforming and nonperforming loans, and transactions backed by agency-eligible mortgages secured by second homes and investment properties, which we look at more closely below. Fannie Mae and Freddie Mac's credit risk transfer securitizations contributed an additional $11 billion, or 5%, to the total. The surge in non-agency RMBS has been driven by robust collateral volume, which continues to be fueled by low interest rates and a strong housing market, stable performance, and attractive yield levels.

Historical Issuance ($ billions)
Non-Agency RMBS Versus Agency RMBS



Source: SFA Market Compilation

2021 Issuance YTD by Asset Type
$198 billion



Other includes Excess Servicing Fee, Mortgage Insurance Risk, Private Reverse Mortgage, Second Lien, Short Term Residential Investor Loans. Source: Deutsche Bank, Bloomberg Finance LP, Intex. 2021 data is as of November 12th

The pick-up in the issuance of non-agency RMBS backed by agency-eligible investor loans was prompted by a change to the Preferred Stock Purchase Agreements of Fannie Mae and Freddie Mac (the GSEs) in January. The change, one of many announced by the U.S. Treasury under the Trump Administration's last weeks in office, in agreement with the Federal Housing Finance Agency (FHFA) under Calabria, limited the GSE's acquisition of single-family mortgage loans secured by second homes and investment properties to 7% of single-family acquisitions over a 12-month period. This restriction came as the market was heating up. According to Redfin's Second Home Demand Index, demand for second homes was up 91% in January 2021 from its level 12 months before. With the GSE restriction in place, lenders turned successfully to the private securitization market (PLS) as an alternative funding source. According to Deutsche Bank Securitization Research, $17 billion of non-agency RMBS in 2021 to date, or 9% of the market, are backed by agency-eligible investor mortgages.

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Strong investor interest and robust collateral supply notwithstanding, meaningful growth of this sector may be short-lived. Nine months after the January amendments were added, the FHFA and the Treasury under the Biden Administration leadership suspended (pending review) the 7% cap, along with certain other provisions, in an attempt to boost housing supply. The suspension and the recent 18% increase in loan limits could further muddy the waters for the PLS market as it tries to commit to build infrastructure to support the housing market. With Fannie and Freddie resuming purchase of agency-eligible investor loans for the foreseeable future, we expect some issuance volume to be siphoned away from the private label market.

For now, however, the effect of the previous 7% cap may still linger as issuance activity in the non-agency market continues. For example, Onslow Bay Financial LLC, a loan aggregator, closed the $440 million OBX 2021-INV3 on November 18, the sixth such transaction from this issuer that was secured by agency-eligible investor loans. In this recent transaction all but two loans in the pool of 1,301 fixed rate loans were made to investors for "business purposes," according to DBRS Morningstar ratings report. The pool has a strong credit profile with a weighted average credit score of 771 and a combined LTV of 63.6%. The rating agency noted that agency loans, which meet the GSE's rigorous underwriting standards, have historically outperformed nonagency mortgages of similar characteristics and vintage, mitigating the higher default risk associated with investment properties. Other issuers in the space are United Wholesale Mortgage, J.P. Morgan, and Flagstar Bank, all with transactions secured by agency-eligible investor loans.

Second Home Demand Remains Elevated from Pre-Pandemic Levels

Monthly value of second home index; 100=pre-pandemic (Jan-Feb 2020). Data is seasonally adjusted. Any data point above 100 represents second-home demand that's above pre-pandemic levels and any data point below 100 represents demand below pre-pandemic levels.
Source: Redfin Analysis of Optimal Blue data

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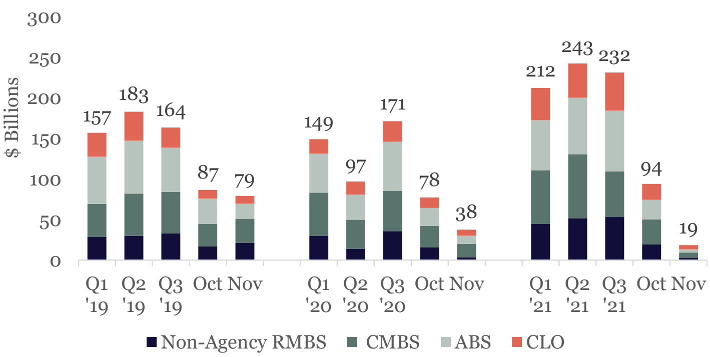
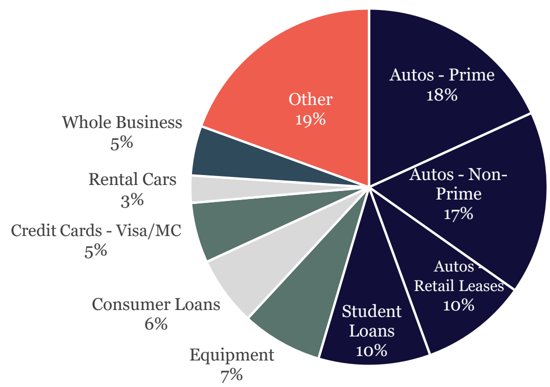
MARKET SUMMARY

Issuance for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($895 Billion) Versus 2019, 2020



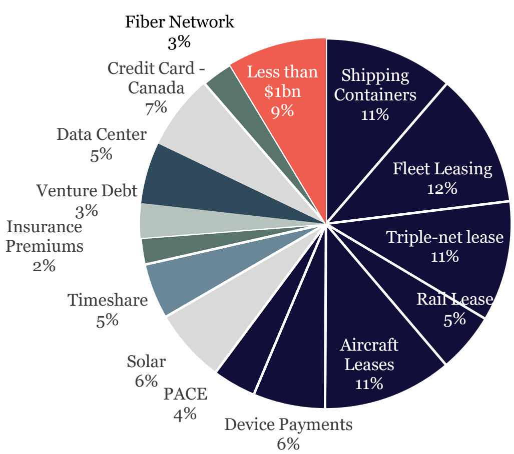
Source: Deutsche Bank, Market Compilation

ABS Only 2021 YTD: $254 billion



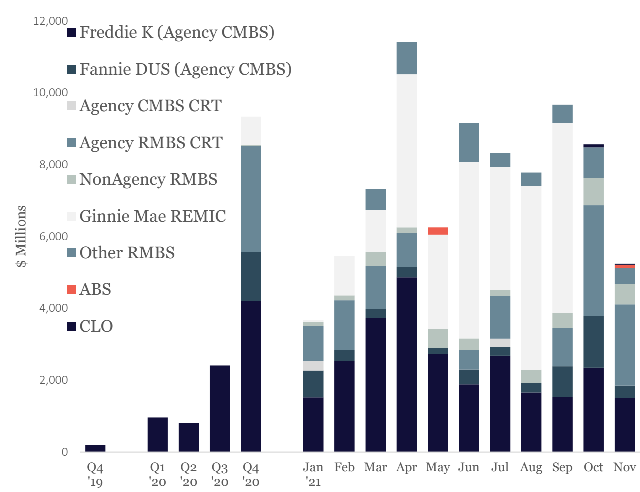
Source: Deutsche Bank, Market Compilation

Other ABS Only 2021 YTD: $49 billion



ABS with YTD volume less than $1 bn YTD include ABS backed by venture debt, data centers loans, auto dealer floorplan loans, small business loans, tax liens, commercial loans, secured fund fee, oil contracts, UK credit cards, litigation funding, retail credit cards, and rate reduction bonds.
Source: Deutsche Bank, Market Compilation

SOFR (30 Day Average) Securitizations 2019 to 2021 YTD: $97 billion



Other RMBS includes mortgage insurance-linked securities.
Data begins Q3 2019. Ginnie Mae data as of September 2021. Source: Market Compilation

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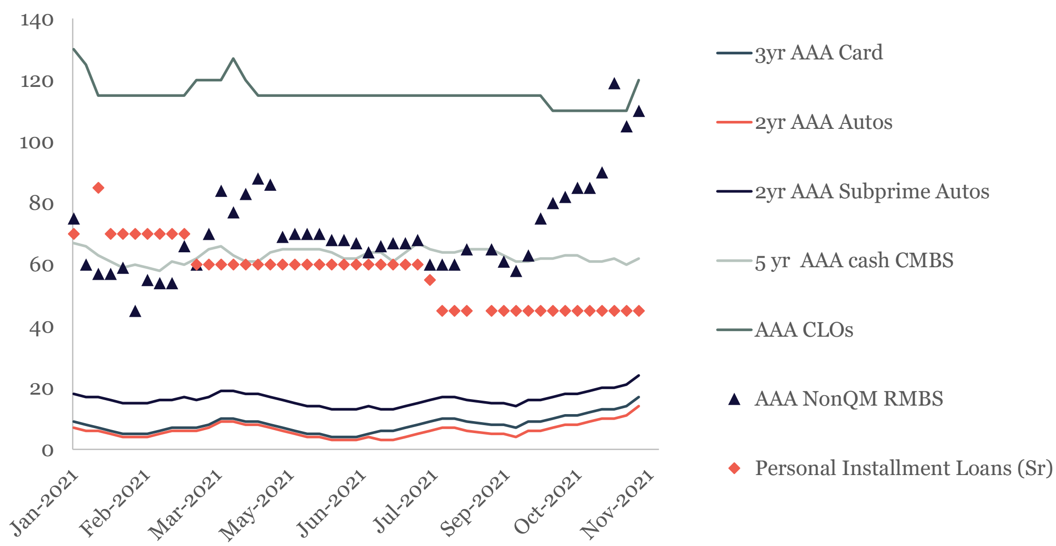
Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	19-Nov	1-Oct
3yr AAA Card	17	10
2yr AAA Prime Autos	14	7
2yr AAA Subprime Autos	24	17
5yr AAA Cash CMBS	62	62
AAA CLOs	120	110

Source: Market Compilation