

# SFA Research Corner

## High Rates Slow MBS's Run; 2023 Brings Its Own Challenges

January 19, 2023



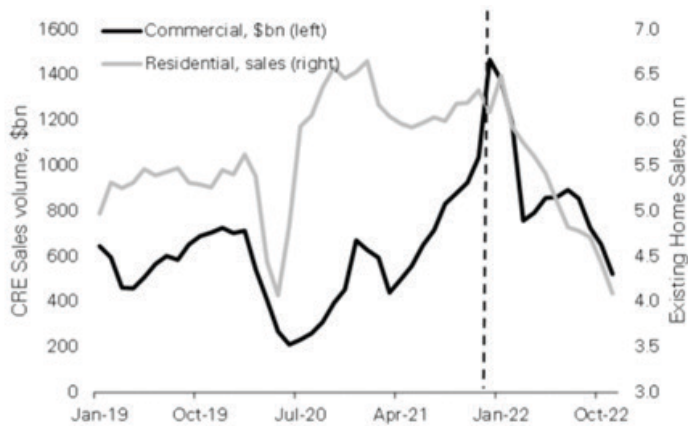
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### High Rates Slow MBS's Run; 2023 Brings Its Own Challenges

Across the commercial and residential mortgage markets, higher mortgage rates (near 7% for both sectors) are markedly reducing loan demand. New research from Deutsche Bank shows CRE sales volume fell from \$1.5 trillion in 4Q 2021 to \$500 billion in 4Q 2022, while existing home sales dropped from 6.5 million to 4 million.

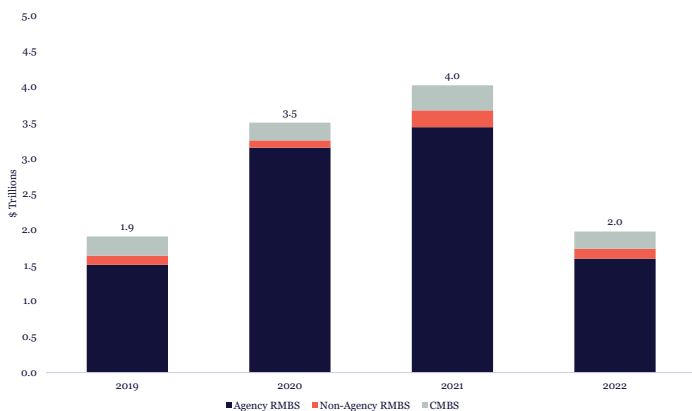
#### US Real Estate Activity is Collapsing from 2021 Record Highs as Rates Climb



*Note: Commercial Real Estate (CRE) Sales volume is 3-month annualized. Source: RCA, National Association of Realtors, Bloomberg Finance LP as compiled by Deutsche Bank Research*

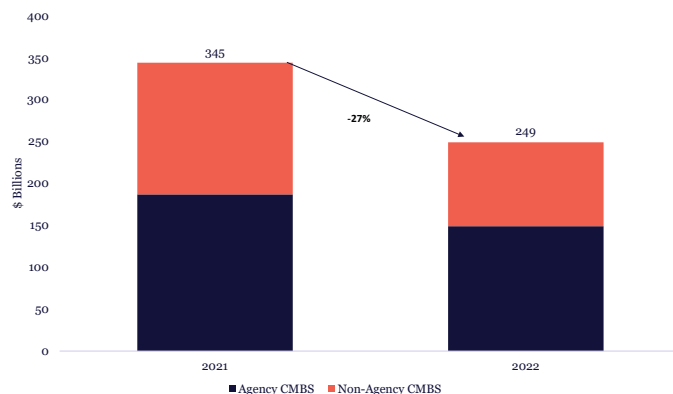
Slower originations, higher borrowing costs and stressed market liquidity have taken their toll on securitization volume. New issue supply of agency and non-agency RMBS and CMBS ended 2022 at \$2 trillion, half of the volume seen at the end of 2021, with RMBS representing 85% (\$1.7 trillion) of that total supply. During 2022, agency RMBS volume dropped 52% as non-agency RMBS tumbled by 41%. For CMBS, agency CMBS closed the year 20% lower while non-agency supply fell by 36% compared to 2021 volumes.

**MBS New Issue Supply drops to \$2 Trillion YOY**



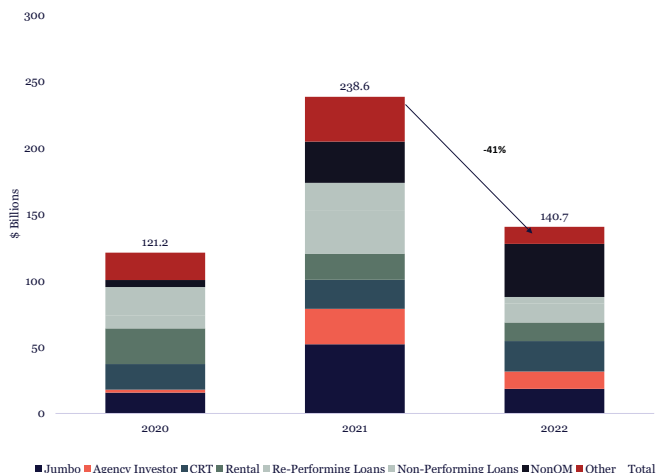
Source: JP Morgan Securitized Products Research

**CMBS New Issue Supply Falls 27% YOY  
Changes in MBS New Issue Pricing Levels Climb  
From Q1 to Q4 2022**



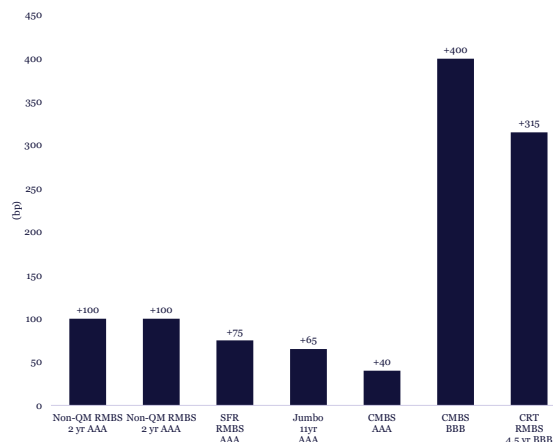
Source: JP Morgan Securitized Products Research

**RMBS New Issue Supply Tumbles 41% YOY**



Source: JP Morgan Securitized Products Research

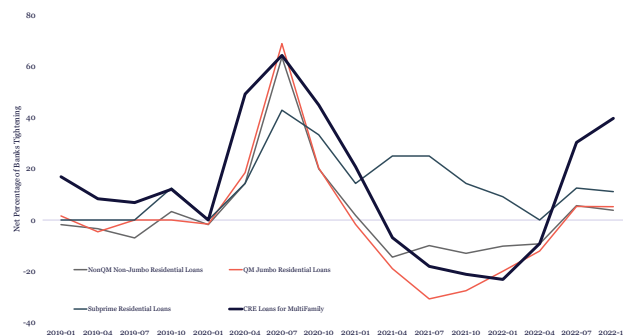
**Changes in MBS New Issue Pricing Levels: Q1 to Q2 2022  
(as reflected by credit spread to benchmark)**



Source: Market Compilation

To the extent that borrowing costs remain high and credit deterioration accelerates further as the economy slows, 2023 is expected to be just as challenging as 2022. A recent [WSJ survey](#) of economists put the probability of a recession in the next 12 months at 60%. In preparation for expected credit challenges in 2023, the Fed's latest [Senior Loan Officer Opinion Survey](#) indicates that amidst weakened demand, a "major" net share of banks have tightened standards for construction and land development loans, while a "significant" (40%) net share of banks have adjusted multifamily loans. The survey shows standards have also tightened for residential loans but not to the same extent.

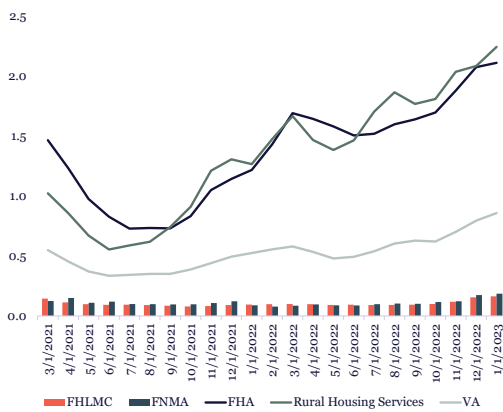
**Share of Banks Tightening Standards for CRE  
Multi-Family Loans  
Is "Significant" According to Fed (SLOOS)**



Source: Federal Reserve [Senior Loan Officer Opinion Survey](#)

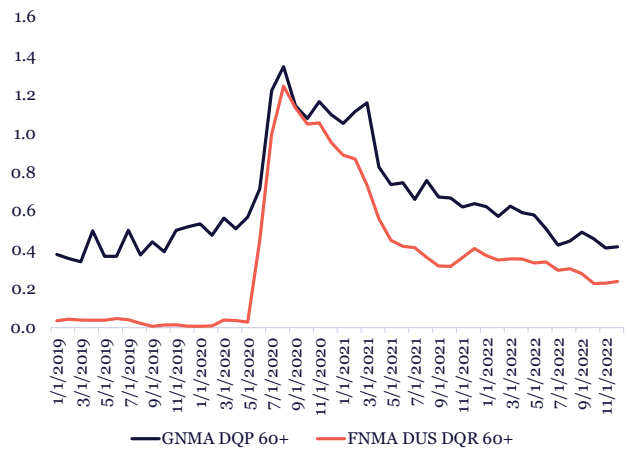
For now, performance has been stable. According to data from [Recursion](#), a mortgage data analytics firm, the early payment default rate (EPD) has been rising for loans in all agency programs including FHA, VA, Rural Housing, FHLMC and FNMA pools. The EPD rate reflects the portion of loans that have been outstanding for fewer than six months and are currently 60 days or more delinquent. In contrast, commercial mortgage loans remained resilient in 2022 as the serious delinquency rate, which measures the percentage of loans in agency pools that are currently 60 days or more delinquent, continued to improve.

**Early Payment Default Rate for Resi Mortgage Loans  
Rising Modestly in Agency Programs**



Source: [Recursion](#)

**Serious Delinquency Rate for Commercial Mortgage Loans  
Continues to Improve**



Source: [Recursion](#)