

Mark Yecies
Vice President Mortgage Lending, Guaranteed Rate Affinity
18958
16 Arcadian Ave, Unit C-6 Paramus, NJ 07652

Office: 973-713-7964
Mobile: 9737137964
mark.yecies@grarate.com
View My Website

### A Message from Mark Yecies:

*"New #TRID disclosure rules have shut down the jumbo securitization market, hindering the availability of jumbo loans. #mortgage"*

# Jumbo Private-Label MBS Outlook "Cloudy"

Is the mortgage-backed security (MBS) based on **jumbo mortgage loans back on life-support?** Sam Khater, CoreLogic's deputy chief economist, says it appears to be.

In an analysis published in the company's *Insights* blog, Khater says that nearly a decade after the crash the private-label securities (PLS) market of which jumbos are a part still doesn't even have an upside. When the overall market hit the skids "jumbos had the misfortune to be a nonconforming product when subprime made nonconforming a dirty word," Khater says. "Many jumbo securities were prime credits, but that didn't save them. The sector has spent most of the last ten years **trying to re-establish** a steady market. And just when it seemed that the market was gaining traction, economics, low interest rates and compliance all turned into headwinds."

The PLS market which **topped $100 billion** in 2005 has flat lined since 2007, he says, with Redwood Trust sometimes the only securitizer out there. Then jumbos started to move up again in 2012; and although jumbo securitizations never reached earlier peaks they did at least "register a pulse" before cratering again last summer.

He points to figures from Kroll showing that there were 38 prime jumbo securitization deals in 2015 but so far this year only two with a third, a $332 million issuance, recently announced. At least two issuers have said they are **no longer securitizing** jumbo loans.

It's not that jumbo mortgages weren't and aren't popular. Demand drove the jumbo yield **below the conventional yield in 2013**, but securities were suffering from formidable competition on the whole loan side. Banks were holding a lot of jumbos in their portfolios, keeping them out of the securitization market.

Some observers contend that the new Truth-in-Lending (TRID) rules are making the challenges of prime jumbo securitization **even worse**. *Inside Mortgage Finance*, for example, just noted that the third jumbo deal referenced

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.29% | +0.03 | 0.00 |
| 15YR Fixed | 6.93% | +0.11 | 0.00 |
| 30YR FHA | 6.97% | +0.02 | 0.00 |
| 30YR Jumbo | 7.40% | 0.00 | 0.00 |
| 7/6 SOFR | 6.68% | +0.08 | 0.00 |
| 30YR VA | 6.99% | +0.03 | 0.00 |

Rates as of: 11/27

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.65 | -0.24 |
| 10 YR Treasury | 4.9345 | +0.0755 |
| 30 YR Treasury | 5.3271 | +0.0792 |

Pricing as of: 11/27 5:59PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 18 | 212 | +6.11% |
| Building Permits | Oct | 1.3M | -7.5% |
| Housing Starts | Oct | 1.31M | +7.21% |
| New Home Sales | Oct | 701K | +3.7% |
| Pending Home Sales | Oct | 63 | -4.69% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Nov | 25 | -13.79% |

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above appears to be the first to include jumbos originated under TRID.

Khater calls a healthy private-label securities market the **missing piece** in housing finance recovery. "No one is interested in the kind of dangerous boom and bust ABS that fried the markets ten years ago," he says, "but responsible non-agency lending has been a respected segment of the market for a long time." He declines to put a number of what might be considered "healthy" but says "the bottom number is pretty easy: it should be higher than zero."

While the Treasury-led group working on ways to restart private-label activities unveiled its concept of a deal agent earlier this month, the razor-thin economics of jumbo securitization and the pristine nature of the collateral that is being packaged probably means that deal agents, a key element many observers believe that is needed to assuage investor concerns, won't debut in prime jumbo securities.

Khater concludes that unless and until interest rates go up, issuers and ratings agencies **come to terms with TRID**, and the big banks stop holding whole loans, "the outlook for prime jumbo securitization is cloudy."

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