Ginnie Mae EBO securitizations close as supply rises, market tightens

11 February 2021 | 17:08 EST

A number of potential securitizations of Ginnie Mae early buyouts (EBOs) are in the works in the latest sign that the trade in delinquent government-insured mortgages has become a scalable opportunity, according to a source familiar with the matter.

Investors are nearly ready to go to market with deals that would replace the short-term agreements tapped for EBO purchases, the source said. The tightening of structured debt spreads this year has cut securitization costs to the point where they are competitive with short-term financing, the source said.

The deals speak to the supply that has started to flow in larger amounts, as reported. But that supply is still likely to be lumpy, just as it appeared to be in the last month, with several top Ginnie Mae servicers cutting back on EBOs, as measured by declining CDRs, according to Recursion data.

Lakeview Loan Servicing's 1-month CDR fell back to 14.7% as of February reporting data, from 25.5%, though the current rate remains multiples more than the averages across most months in 2020, the Recursion data show.

A potential wave of EBOs upon the expiration of forbearance plans has been raising expectations of supply in March and April, as reported. But that could be delayed if the US Department of Housing and Urban Development allows for the extensions of forbearance plans, as the Federal Housing Finance Agency just did for conventional loans, Scott Buchta, head of fixed income strategy at Brean Capital, wrote in a 9 February report.

New Residential Investment Corp will be among "opportunistic" buyers after purchasing USD 321m of the debt last quarter, CEO Michael Nierenberg said during a 9 February earnings call. The REIT hasn't been large in the space but will focus on it through its origination and servicing business, he said.

EBOs aren't just coming from non-banks that lack the balance sheet to fund and hold the EBOs, a loan advisor said. Wells Fargo, the largest bank Ginnie Mae servicer, was recently spotted with a large pool in the market, for example, the advisor said.

Indeed, demand for EBOs is creating its own supply.

“There are capital investors that have better bids than some servicers do for their own balance sheets,” said Peter Sack, head of mortgage finance at Credit Suisse. “There have now emerged a number of these relationships between capital investors and servicers. The pace of these trades has increased in recent weeks.”

Credit Suisse has been developing term securitizations that may resemble the liquidating trusts common with NPL RMBS deals, as reported.

Sack said that issuers are observing favorable market conditions for new issuances and that credit rating companies are updating their analyses, given that many years have passed since the last rated EBO transactions.

by Al Yoon