



## RMBS reaping RPL benefits

Freddie Mac last week settled its largest SCRT deal to date. The RPL RMBS market is growing and investors are enthusiastic about its prospects.

Freddie Mac Seasoned Credit Risk Transfer Trust Series 2017-2 has issued approximately US\$2bn in guaranteed senior certificates and US\$421m in unguaranteed mezzanine and subordinate certificates. It is backed by 9,939 fixed- and step-rate modified seasoned loans and all of these loans have been performing for at least 12 months as of issuance.

The SCRT 2017-2 RMBS is Freddie Mac's third through the programme. It builds on the successes of Freddie Mac Seasoned Credit Risk Transfer Trust Series 2016-1 and Freddie Mac Seasoned Credit Risk Transfer Trust Series 2017-1, issued in December 2016 and May this year respectively (see SCI's primary issuance [database](#)), although it is comfortably larger than either of them.

"There is strong demand for these RPL securitisations. We have been very pleased with the investor demand and with the pricing for our SCRT deals so far," says a spokesperson for Freddie Mac.

The spokesperson adds: "Our SCRT programme started in December 2016 as a pilot and the decision to become programmatic issuers stemmed from our feedback from that. We have about US\$57bn in RPLs on our books and we continue to innovate to find solutions that are good for taxpayers, good for the company and good for the market."

Fannie Mae is yet to follow Freddie Mac's lead and does not have its own equivalent of the SCRT programme, focusing instead on selling whole loans. There would likely be RMBS demand, however. Neil Aggarwal, portfolio manager and head of RMBS at Semper Capital Management, notes that a significant driver in Freddie Mac's SCRT programme becoming more established is the attractiveness of the credit profile it provides access to.

"Investors like the paper because RPLs have an interesting combination of borrower types: often heavily seasoned pre-crisis origination, have manageable repayments, and

benefited from embedded home price improvement. There simply are not many options for investors to access this type of credit profile," says Aggarwal.

He observes that the SCRT paper broadly targets two different investor groups. "The senior secured and wrapped securities are aimed at the institutions that typically trade agency RMBS pools or spec pools and are already very familiar with agency paper," he says. "The subordinate debt attracts a different kind of investor, typically appealing to traditional non-agency credit investors."

Aggarwal believes that the GSEs have done "a great job" of creating private markets whereby investors can access post-crisis risk and improved performance of pre-crisis borrowers. He notes that both agency and non-agency RPL RMBS paper is both attractive and increasingly available.

"Residential mortgage loan payments have been made increasingly affordable as servicers have employed more active management with borrowers since the crisis, largely the result of loan modifications from active servicing and government instituted programmes such as HAMP. These modifications have brought many borrowers back from the brink of losing their homes and reperforming on their mortgage once again," he says.

Aggarwal continues: "Not only have banks shed a number of NPLs and RPLs for capital relief, but the GSEs have also been compelled to de-risk their balance sheets. The GSEs have taken multiple approaches to de-risk, including selling loan portfolios as well as issuing transactions to convey credit risks to the private markets."

A growing source of paper is seasoned deals from 2005 or earlier which have entered into an optional redemption period. In some cases those deals are being collapsed by the call rights owners, who are then able to either sell the RPLs or launch new securitisations.

"Over the last five or six years there has been a significant investment thesis behind acquiring the call rights for legacy securitisations. The logic is that as collateral reperforms and HPA improves then these loan pools will trade at aggressive levels in the secondary market, so hedge funds and others have been acquiring these call rights to collapse the legacy securitisations and access the whole loans," says Aggarwal.

He continues: "We have seen many legacy deals which have been collapsed where whole loans are being auctioned, but we are now seeing an increase in RPLs being resecured. This is a pretty deep market offering access to a type of credit that is not easily sourced, and is a market we are heavily focused on. The RPL RMBS space is growing and offers interesting credit and fundamental investment profiles."

The size of the opportunity is hard to accurately gauge. While GSE sales continue, the wild card stems from the size of the RPL RMBS market resulting from called deals, as growth in the market is at least partly reliant on the optional redemptions being exercised in the secondary market.

Fitch reports that RPL issuance has trended at around US\$15bn annually for the last few years. However, over recent months the rating agency says more RPL RMBS deals have been including borrowers with more recent performance problems than pools issued in prior years.

The Freddie Mac spokesperson notes that the GSE has now issued US\$3.2bn in SLST transactions and US\$800m over the course of its first two SCRT deals. More deals are expected, but only when it is economical for Freddie Mac to do so.

The loans in Freddie Mac's third SCRT deal are serviced by Nationstar, while the lead manager and sole bookrunner was Credit Suisse. Citigroup and Wells Fargo were co-managers, while Loop Capital Markets was a selling group member. Freddie Mac has now sold US\$7bn in NPLs and securitised US\$31bn in RPLs, of which US\$5bn are in structured offerings.

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