Bayview re-Remic ushers in new phase for CRT market
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by Al Yoon

Bayview Asset Management's debut re-Remic of GSE credit risk-transfer debt signals a new phase for the market that had once struggled for acceptance among mortgage investors, according to an analyst and two investors.

For Bayview, the approximately USD 160m re-Remic likely allows it to monetize the investment-grade portion of the bonds and re-lever its exposure to the non-investment grade debt, according to Grant Bailey, a managing director at Fitch Ratings, which announced its ratings on the transaction on Thursday.

Bayview is getting better ratings on the seasoned collateral, allowing it to price the debt at tighter spreads, said two portfolio managers, speculating on Bayview's motivations. A Bayview spokesperson declined to comment.

But essential to the Bayview trade is a depth of investor participation in the market that wasn't so certain a year ago, as fears of global economic upheaval turned markets volatile and sent spreads soaring, investors said. As a CRT deal manager, Bank of America Merrill Lynch has found the investor base has grown to a point where the banks can trade the capital-intensive bonds profitably, said Matt McQueen the bank's head of securitized credit trading, at a CRT symposium hosted by IMN and Andrew Davidson & Co. last week.

"This indicates the continued growth of strategies and instruments related to the underlying risk," Davidson said of the re-Remic in a Thursday interview.

The symposium registration of 670 alone suggests the market has grown into one with significant interest, analysts at Keefe, Bruyette & Woods said in 9 October report. In addition to GSE CAS and STACR bonds, investors were also eager to hear about new structures that would broaden the market, the analysts said.

Investors haven't lost sight that the market is vulnerable in times of stress, however, said the analysts, noting that about 60% of buyers are levered investors who finance positions with repos.

Even if Bank of America were somehow freed from "punitive" capital requirements, it might not take additional CRT risk, McQueen said on a symposium panel. In addition to the notorious volatility, trading desks struggle with imprecise CRT hedging strategies, he said.

Davidson cast a wary eye on developments that could obscure risks. Credit rating firms should be careful not to repeat the flaws of the pre-crisis CDO market, for instance, he said.

Fitch varied from its criteria for the Bayview deal, including bending its usual requirement that limits collateral to senior bonds that are receiving principal payments, according to its announcement. Mitigating factors such as the CRT's sequential pay structures, a hard maturity date and strong performance of reference pools all helped Fitch provide ratings on the deal, it said.

The Bayview deal is collateralized by 12 mezzanine bonds from Fannie Mae CAS and Freddie Mac STACR deals from 2014 and 2015, Fitch said. Eight of the bonds have non-investment grade ratings and the rest are unrated, it said.

The deal will likely include USD 63.84m in A rated M-1 notes; USD 54.27m in BBB- rated M-2 notes; USD 25.54m in BB rated B-1 notes; USD 13.97m in B rated B-2 notes; USD 63.84m in A- rated M-1X notional notes; USD 54.27m in BBB- rated M-2X notional notes; and a USD 1.99m unrated B-3 class, according to Fitch.