Credit Suisse preps securitization financing for Ginnie Mae EBOs

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A potential surge in the number of delinquent loans repurchased from Ginnie Mae securities by servicers has bankers at Credit Suisse busy with new ways to finance the debt, especially for the non-banks, according to a source familiar and a person briefed.

On the drawing board are term securitizations which would resemble the liquidating trusts that have been used with private NPL securitizations, the source said. A rated bond could be seen later this quarter or early in 4Q20.

The financing would be geared toward the non-bank servicers that haven't the liquidity of large bank servicers to fund early buyouts (EBOs) from Ginnie MBS. Servicers have the right to buy loans out of Ginnie MBS after borrowers have missed at least three payments, and delinquencies are likely to rise with the Federal Reserve predicting the US jobless rate will hover near 10% for the rest of the year.

There are signs some non-banks are in need of term funding as delinquencies rise, the source familiar said. Even as the principal is guaranteed on Ginnie loans, "it's still a lot of balance sheet for the servicer until it gets reimbursed on FHA insurance," he said.

At Wells Fargo, the largest Ginnie bank servicer, the 1-month CPR on Ginnie FHA loans jumped to 71.94% in June from 28.93% in May, while involuntary prepays as measured by 1-month CDR increased to 64.95% — a record high — from 15.74%, respectively, according to Recursion data.

One-month CPRs on Ginnie FHA loans serviced by non-bank Freedom Mortgage rose to 45.06% in June from 37.3% in May while the 1-month CDRs were just 1.23% and 1.01% in those months, respectively, the Recursion data show. For the same type of loans serviced by non-bank PennyMac, 1-month CPR climbed to 21.96% in June from 18.66% in May, while CDRs were 1.23% and 0.38%, respectively, the data show.

Credit Suisse is reengineering securitization structures that it developed in 2016 to finance mortgage servicing rights for several non-banks, including PennyMac and

Freedom Mortgage, according to the source familiar. The structure can also be tweaked to achieve term financing for advances on delinquent loans in MBS, but servicers are likely to buy the loans out of the pools if they have the funding to do so, the source said.

Servicers that buy loans out of MBS pools at par may also profit in the future if they can get the borrower back to a current-pay status, and resell the loan with an above-market coupon at a premium.

Considering that the Ginnie MBS market is more than USD 2trn, the potential for EBO NPL deals is large, the source familiar said. He estimated that it could rival the prime jumbo and non-QM markets where issuance for both exceeded USD 20bn in 2019.

There were some securitizations of Ginnie EBOs after the last financial crisis but they didn't develop into the kind of programmatic issuance that is possible today, with non-banks having a greater share of the servicing and under the structure developed by Credit Suisse, the source said.

Risks on Ginnie EBO NPLs are mitigated by federal guarantees that stick with the loan after the buyout so their yields will be something less than they are on private-label NPLs, the source familiar said. Unrated senior private-label NPLs were yielding 4% last week, according to Wells Fargo Securities data.

But Ginnie EBO bonds wouldn't be riskless, and the servicer is responsible for expenses such as making sure taxes and insurances are paid while in possession of the loan.

by Al Yoon