



---

## Investor Breakout (International)

Moderator: Alven Lam

Panel:

- Vipul Jain
- Ankur Mehta
- Keizo Ohashi
- Brent Sloman

# GINNIE 2020

## RMBS Strategy

# Trade War to Drive the Fed?

---

**Vipul Jain, CFA**

Head of RMBS Research

[vipul.jain@wellsfargo.com](mailto:vipul.jain@wellsfargo.com)

212.214.5738

June 3, 2019

Please see page 5 for important disclosures and required analyst certifications.

All estimates/forecasts are as of 6/3/19 unless otherwise stated.

Together we'll go far



# Key Themes

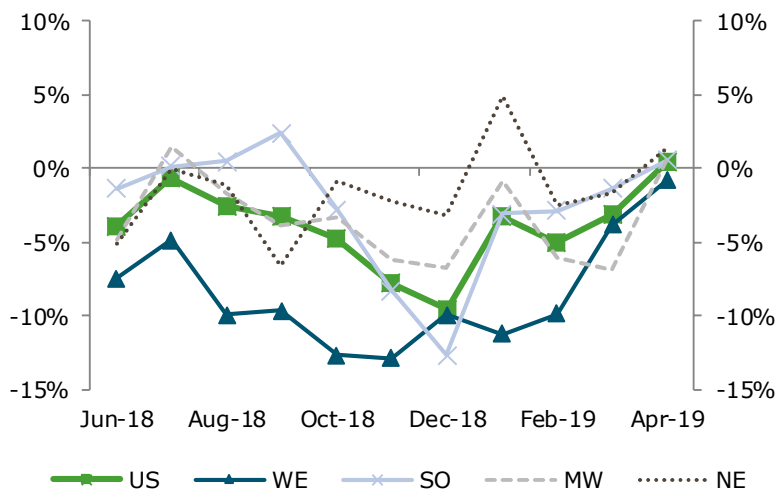
---

- Housing is exhibiting very high rate sensitivity due to high DTI on recent loans. Recent rally is supportive of housing and should keep MBS supply robust.
- Net supply has been running lower than expected, but we expect it to pick up in the coming months.
- Banks are facing NIM compression, and we expect them to ramp up purchases once rates stabilize.
- Demand from overseas investors remains mixed.
- At current spread levels, carry remains the primary source of excess return for MBS.
- We prefer MBS over credit products as liquidity premium remains low despite higher risks.
- Escalation of trade war has broken us out of the range and brought prepayment risk to the forefront.
- Faster speeds on recently produced conventionals and 8-24 WALA GN remain a top concern for investors and are the key headwind for higher coupons.
- We support recent policy proposals by GNMA and they should help in containing aggressive behavior of some servicers.

# Housing: Pending Sales Activity Starting to Rebound

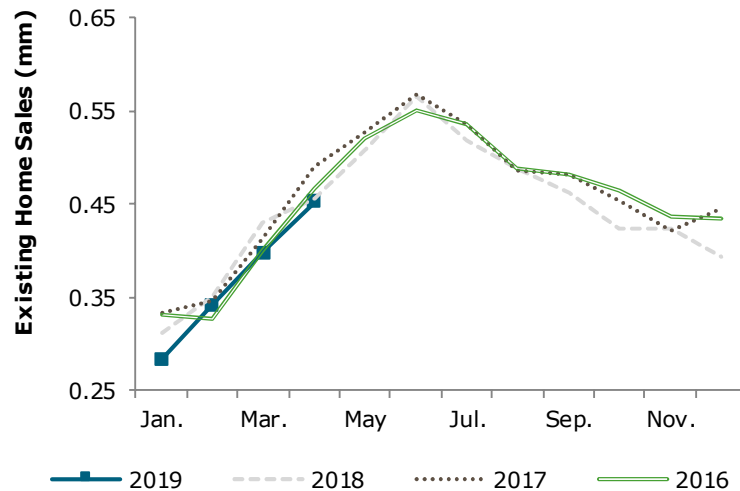
- Pending home sales, which are measured as of contract signing and are typically more forward looking, are beginning to point to a potential rebound. Sales for the U.S. were up 0.4% YoY in April, a significant improvement from the -9.5% YoY print in December.
- Due to the lag time in closings, the effects of increased affordability have been slower to materialize in existing homes sales. With the latest release on May 21, as rates have reverted to early 2018 levels, sales approached early 2018 levels.

**% Change in Pending Home Sales by Region**



Source: National Association of Realtors, Bloomberg, Wells Fargo Securities

**Existing Home Sales (mm)**

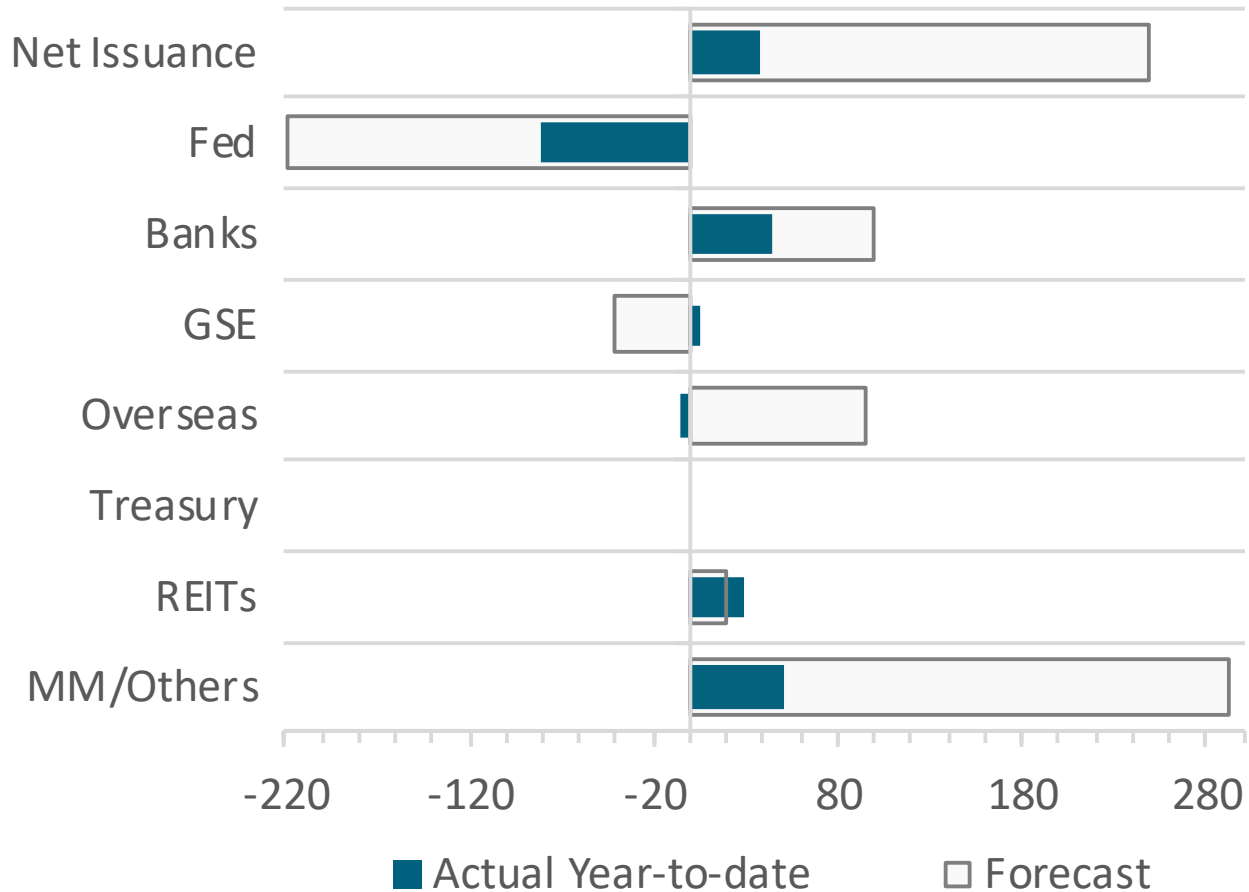


\* Adjusted for day count.

Source: National Association of Realtors, Bloomberg, Wells Fargo Securities

# Supply and Demand Summary

**2019 Supply and Demand – Forecast vs. Actuals (\$ billion)**

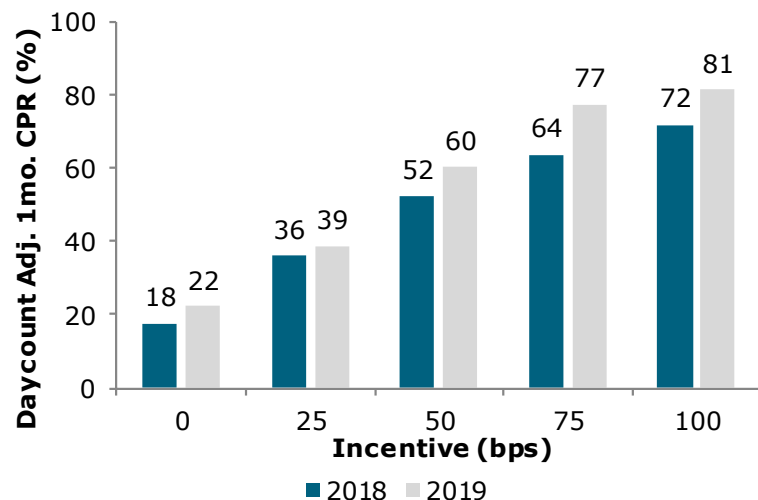


Sources: Federal Reserve, FDIC, US Treasury, Fannie Mae, Freddie Mac, CPR CDR Technologies, Yield Book, Wells Fargo Securities

# Prepayment Outlook – GNMA Call Risk on the Rise

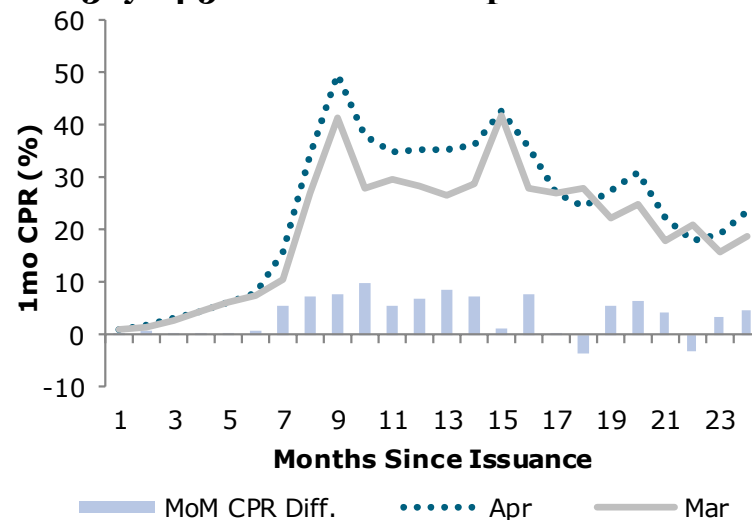
- Peak speeds on VA loans remain very high and s-curve is fairly steep.
- For each 25 bps increase in refinancing incentive, VA peak speeds on average increase by roughly 15c-20c until we get deeper ITM.
- Recently, speeds have increased for 12-24 months seasoned loans as well.

8-10 WALA VA Speeds in 2018 & 2019 YTD



Sources CPR & CDR Technologies, Wells Fargo Securities

G2 30yr 4.5 Multi-Pool Ramp



Source: CPR & CDR Technologies, Wells Fargo Securities

June 2019

# Ginnie Mae Conference: Outlook for the Agency MBS Market

**Ankur Mehta<sup>AC</sup>**

Managing Director

Head of MBS Research

[ankur.mehta@citi.com](mailto:ankur.mehta@citi.com)

212-723-1833

**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures**

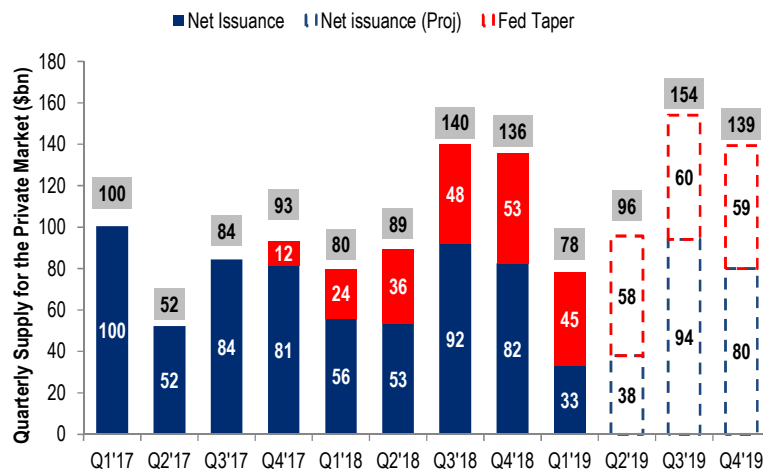
Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Certain products (not inconsistent with the author's published research) are available only on Citi's portals

This presentation was approved for distribution on 4 June 2019; the disclosures in Appendix A1 are current as of the same date

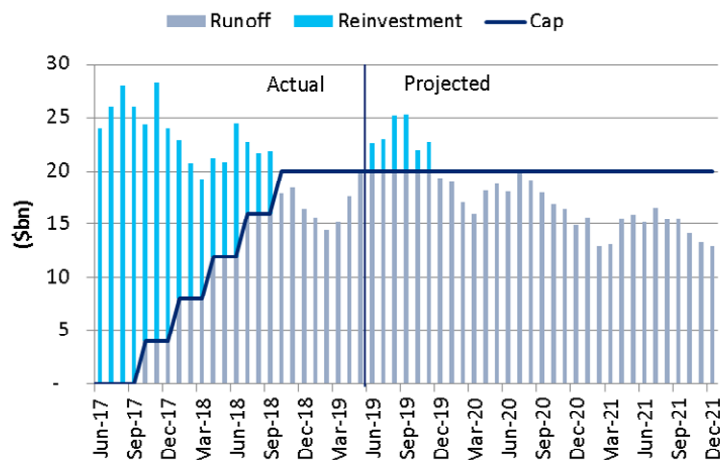
# \$467bn of Private Market Supply in 2019

- An increase in supply from the Fed should add to net supply for private investors.
- The total runoff on the Fed's portfolio should reach \$222bn this year.
- We expect paydowns to exceed the \$20bn reinvestment cap through November, peaking in August and September.
- Monthly reinvestments will range between \$2-5bn and total around \$20bn in 2019.
- This brings private market supply to \$467bn, peaking at \$154bn in Q3.

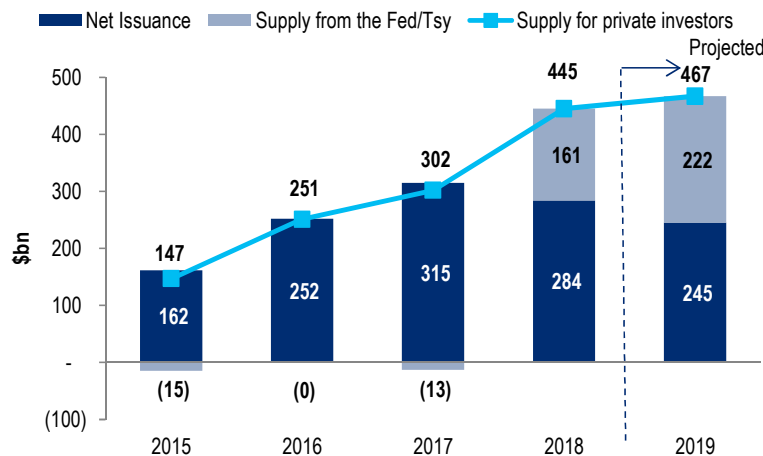
## Private Market Supply will Surge in Q3



## Fed May Need to Reinvest \$2-5bn in the Short-term



## 2019 Private Market Supply to Surpass 2018





# Supply/Demand Expectations

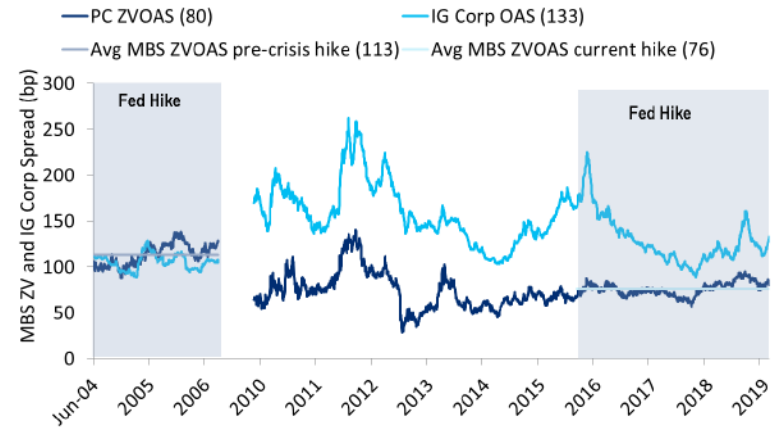
- Agency MBS outstanding increased by \$33bn in the first quarter while the Fed holdings declined by \$44bn.
- Mortgage REITs (~ \$32bn), money managers (~ \$22bn) and overseas investors (~\$15bn) absorbed a majority of the \$87bn of private market supply over the quarter.
- The GSEs also increased their holdings by a modest \$5bn.
- Banks only added \$4bn in Q1.

	Historical Change											Holdings (Mar-2019)	2019 Projected Change	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Q1 2019		Remaining	Full Year
Gross supply	1,696	1,349	1,142	1,661	1,546	925	1,250	1,472	1,305	1,171	232	6,606	1,018	1,250
Chg in Outstanding Balance	496	-122	6	65	147	84	162	252	315	284	33		212	245
GSEs	-56	-121	-91	-85	-83	-46	-42	-43	-5	-18	5	178	-5	0
FHLB	8	4	-1	0	-19	-2	-12	-8	-9	0	0	58	0	0
Federal Reserve	910	92	-154	93	556	241	15	0	19	-161	-44	1,593	-178	-222
Treasury	131	-47	-118	-26	0	0	0	0	0	0	0	0	0	0
Banks	109	105	161	94	-46	39	151	120	118	39	4	1,849	86	90
Foreign*	-20	-39	1	6	-53	44	30	107	70	100	15	1,005	80	95
REITs	16	38	105	109	-88	9	-50	-27	51	17	32	304	28	60
Others (M-mgrs, HFs, Insurance Companies, Dealers)	-601	-154	103	-126	-120	-200	70	103	73	307	22	1,619	200	222

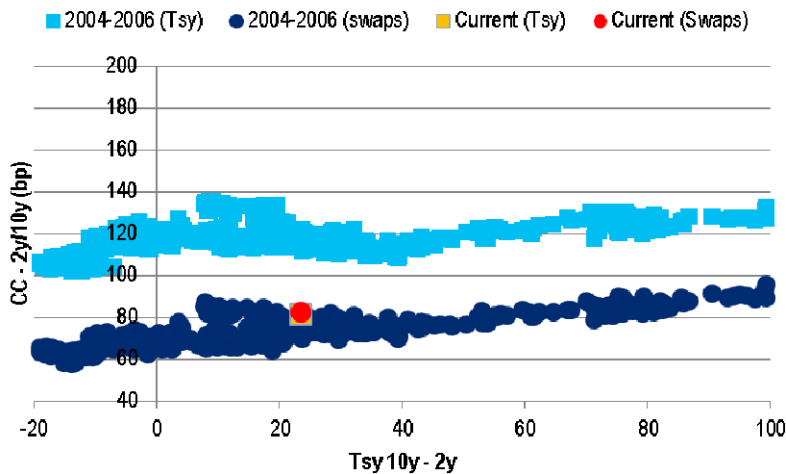
# Spreads still tight to pre-crisis levels

- Similar to the current environment, the Fed was hiking, the curve was flattening, volatility was low and growth was strong.
- We think a majority of the demand will come from money managers, which rely more on Treasury based spreads (as opposed to swaps).
- The share of levered investors in MBS is likely to stay lower in the short-term, which should lead to wider spreads.
- Elevated net issuance, balance sheet constraints, and single security will all put downward pressure on rolls.

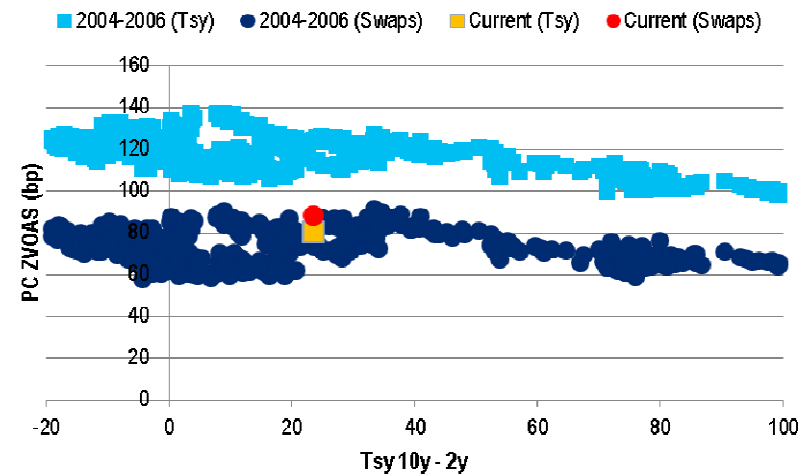
## PC zv-spreads still remain tighter than average pre-crisis levels



## Treasury based nominal spreads

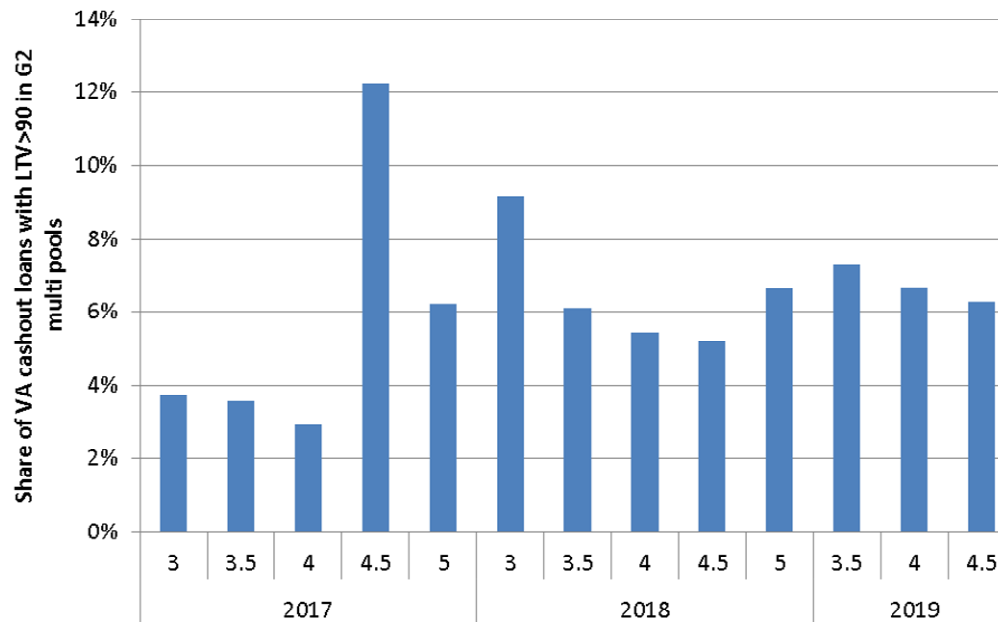


## Production coupon zv-spreads



# Ginnie proposal to restrict VA cashouts

- Ginnie Mae put out a press release on May 3 proposing to exclude/restrict pooling eligibility of VA cashout refis with LTV > 90%.
- The exclusion, or restriction, of faster paying VA high-LTV cashout loans from multis should be the most beneficial for pricing of new prod multi pools once these changes go into effect, as well as the TBA when these new pools become deliverable.
- Near-term benefit to the TBA should be fairly limited as future speeds on existing VA loans will decline only to the extent that these changes make high LTV cashout refinancing less attractive by increasing the mortgage rate available due to pooling requirement into customs or separate MIPs.
- We continue to think the best way to tackle the issue of predatory lending is to require marginal cashout borrowers to meet the NTB test or undergo counseling.



# Housing Finance Market in Japan

June 13, 2019

Presentation by  
Keizo Ohashi  
Member of the Board and Senior Executive  
Director  
Japan Housing Finance Agency (“JHF”)



## US Agency MBS Investor profiles

### FY2018 Foreign ownership of US Agency MBSs

Countries	Japan	Taiwan	China, mainland	Ireland	Luxembourg	Korea, South	Others	Total
Billions USD	254.0	249.8	176.3	37.8	34.0	33.1	168.0	953.0
Share	26.6%	26.2%	18.5%	4.0%	3.6%	3.5%	17.6%	100.0%

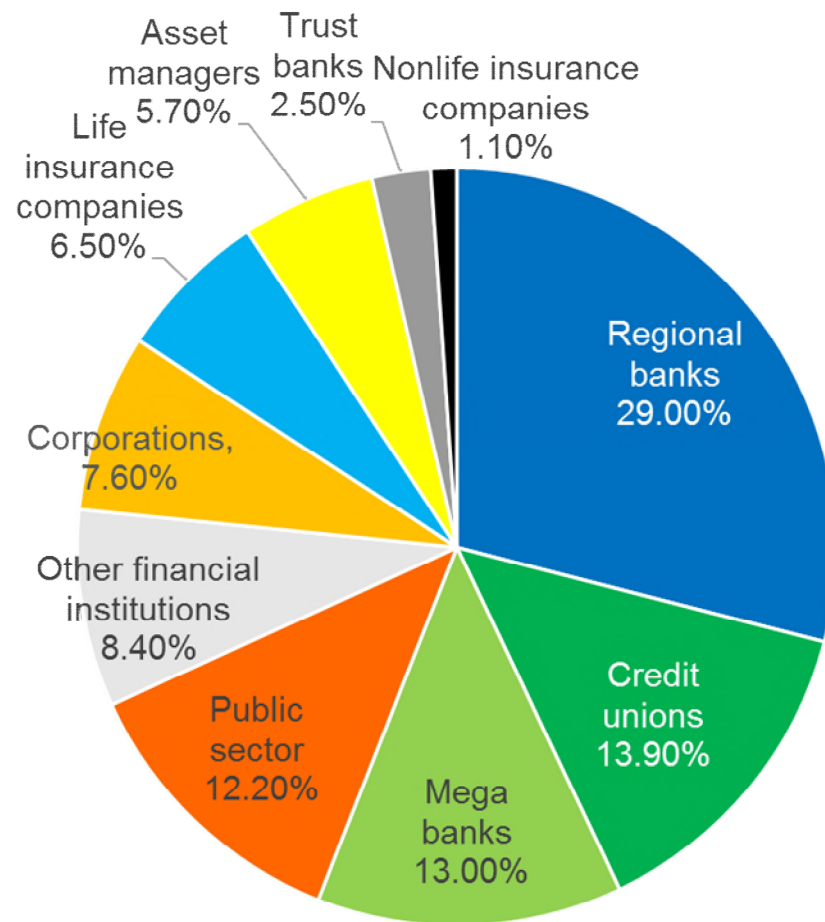
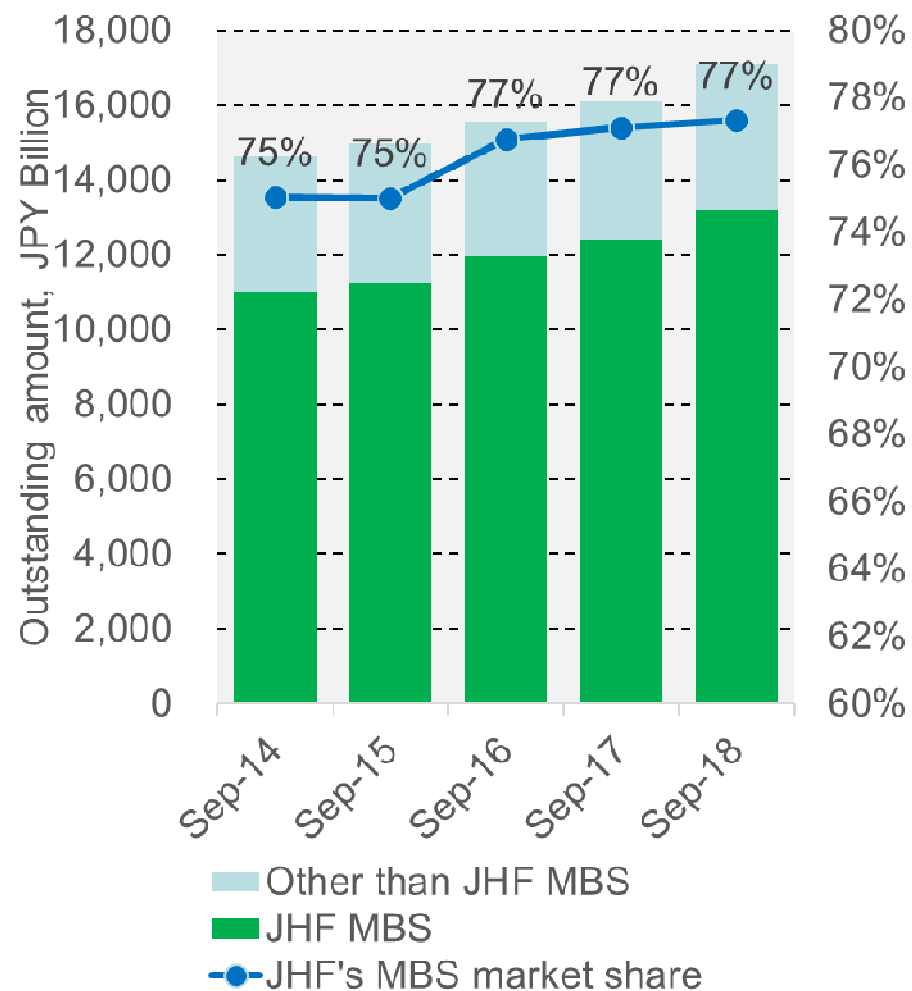
Source) Global Markets Analysis Report as of May 2019 issued by Ginnie Mae.

### Japanese mega bank's ownership

As of March 31, 2018	Available-for-sales	Banks	Categorized as	Billion JPY	Billion USD
		MUFG	Foreign MBS	1,214	11
		MIZUHO FG	Agency MBS	146	1
		SMFG	n/a	0	0
		Total		1,360	12
As of March 31, 2018	Held-to-maturity	Banks	Categorized as	Billion JPY	Billion USD
		MUFG	Foreign MBS	1,048	10
		MIZUHO FG	Agency MBS	513	5
		SMFG	Foreign MBS	488	4
		Total		2,049	19

Source) Website of MUFG, MIZUHO FG, and SMFG. JPY converted to USD by applying JPY110=USD1.

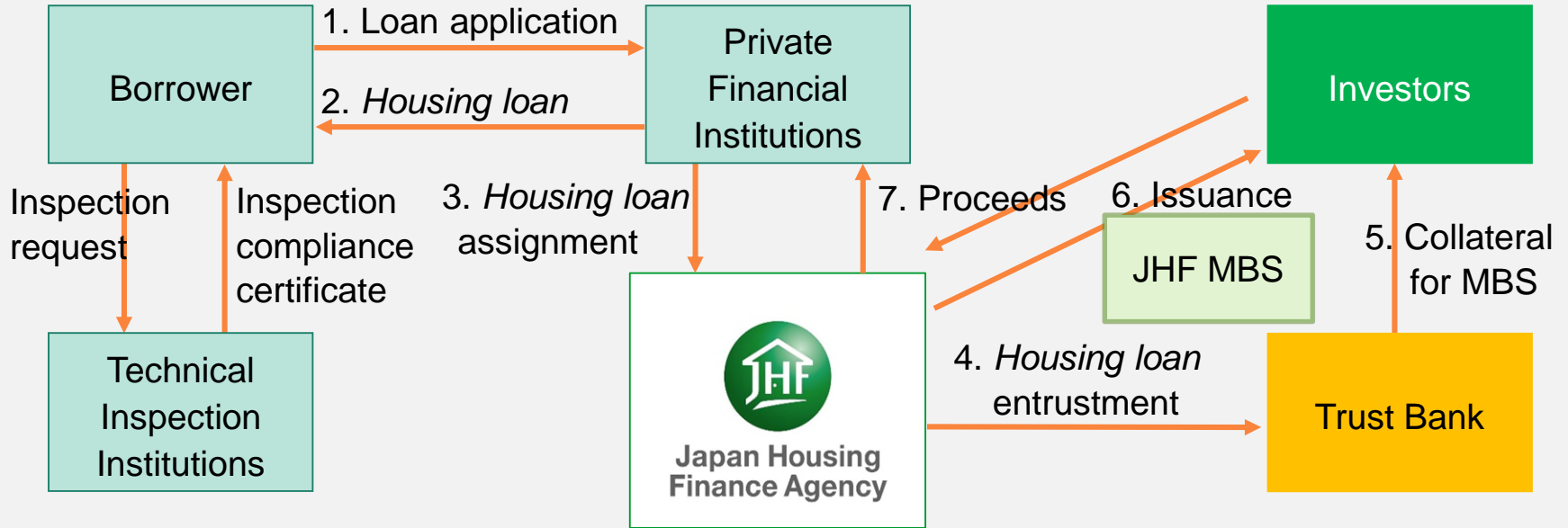
## Market Share and investors of JHF MBS in Japan



JHF MBS investor profiles as of FY2018

# Features of JHF MBS

## Before the beneficiary certificate trigger event



## After the beneficiary certificate trigger event



Note) Failure of payment by JHF and other certain credit deterioration of JHF will constitute beneficiary certificate trigger event by which JHF MBS will be replaced with a beneficiary certificate and all payments to JHF will be bypassed.

## Comparison of JHF Monthly MBS and Ginnie Mae II

### Comparison of two MBSs

	JHF Monthly MBS	Ginnie Mae II
<b>Underlying loans</b>	Fixed-rate housing loans.	FHA, VA, RHS, and PIH guaranteed single-family housing loans and manufactured home loans.
<b>MBS issuer</b>	JHF	Private financial institutions
<b>MBS guarantor</b>	n/a*	Ginnie Mae
<b>MBS principal payment</b>	Monthly pass through	Monthly pass through
<b>Currency</b>	JPY	USD
<b>MBS credit ratings</b>	S&P/R&I AAA(sf)/AAA	n/a
<b>Credit enhancement feature</b>	Yes	No
<b>Government guarantee</b>	No	Explicit
<b>BIS risk weight in Japan</b>	10%	0%
<b>BOJ collateral eligibility</b>	Yes	No
<b>Investors in Japan</b>	Institutional investors JPY12,742 billion**	Institutional investors Agency ABS holdings USD254 billion***

\* Although not mentioned herein, JHF conducts Guarantees Program providing guarantee on private labeled MBSs.

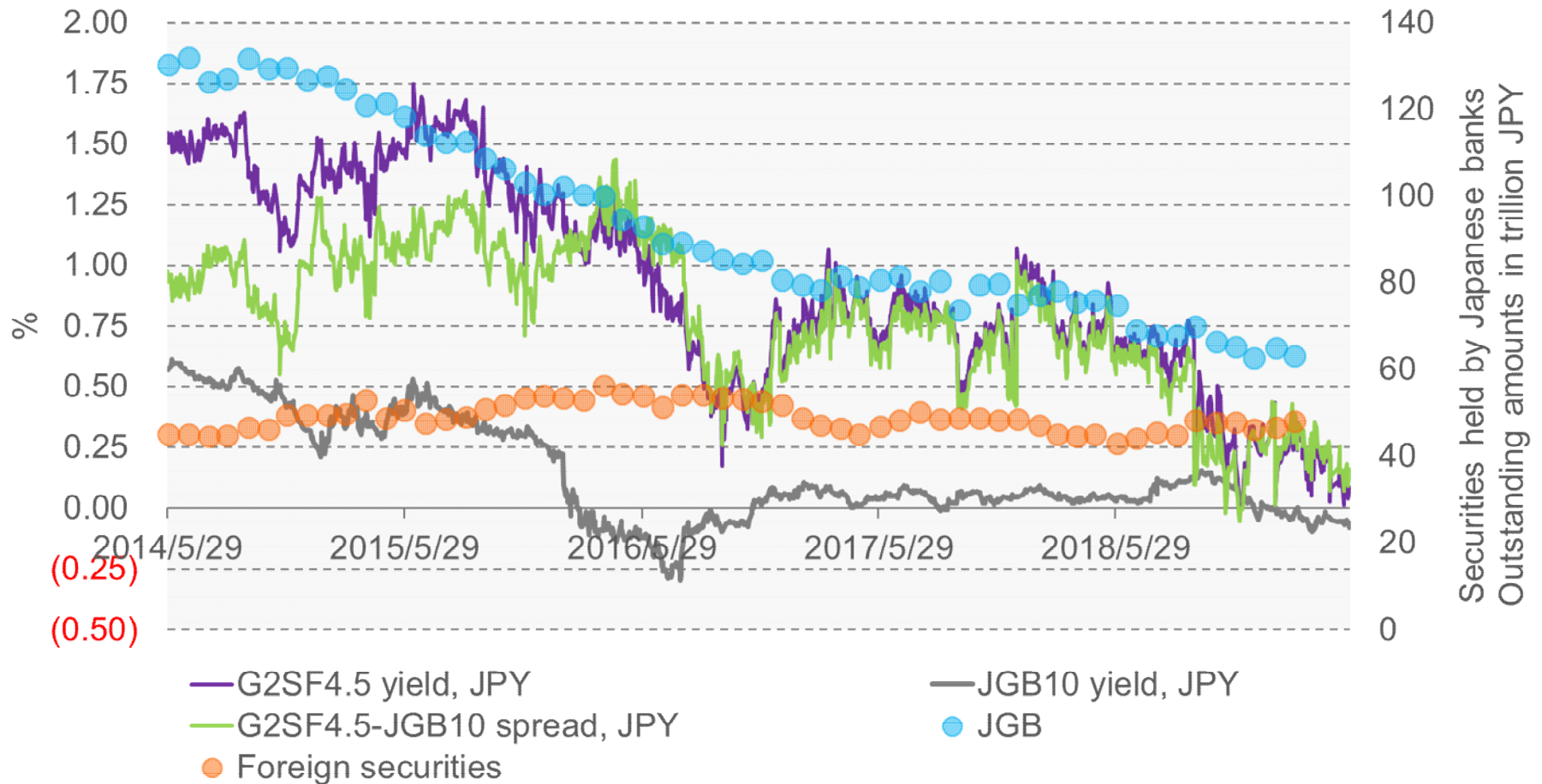
\*\* JHF MBS outstanding amount, as of march 31, 2018, JHF.

\*\*\* Value of foreign holdings of U.S. securities, as of June 29, 2018. Agency are U.S. government agencies and federally sponsored enterprises as reported by Federal Reserve Bank of New York.



# Ginnie Mae II 4.5 and JGB 10 year

## JPY base yield comparison



Note) JPY yield was assumed by G2SF4.5 yield minus USD/JPY 10 year currency swap cost. Source is Bloomberg.



住宅金融支援機構  
Japan Housing Finance Agency

#### Disclaimer

This material is provided for general information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction.

No investment decision should be made based on any information provided herein. You should read respective final prospectus and other available information to learn more about the securities described herein including, without limitation to, the terms and conditions, risk factors and structures and descriptions of the bonds. Your investment decision should be made solely at your discretion.

# 2019 Ginnie Mae Summit

## June 13<sup>th</sup>, 2019



**THE WORLD BANK**

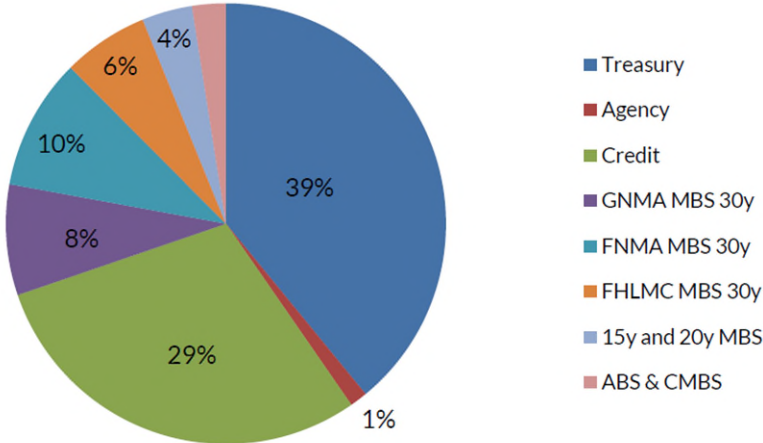
---

Treasury | IBRD • IDA

**Brent Sloman**  
Principal Portfolio Manager  
Investment Management Department  
[Bsloman@worldbank.org](mailto:Bsloman@worldbank.org)

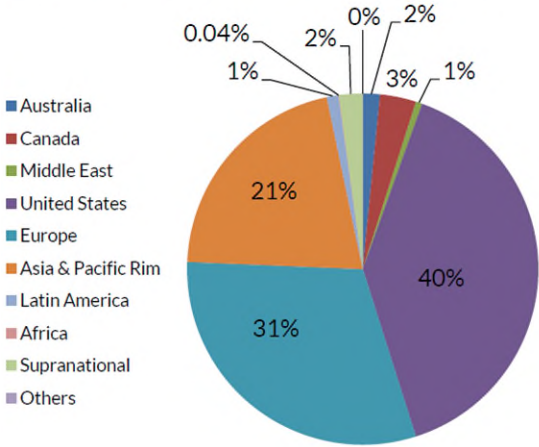
# 2019 Ginnie Mae Summit

## Barclays US Aggregate Index



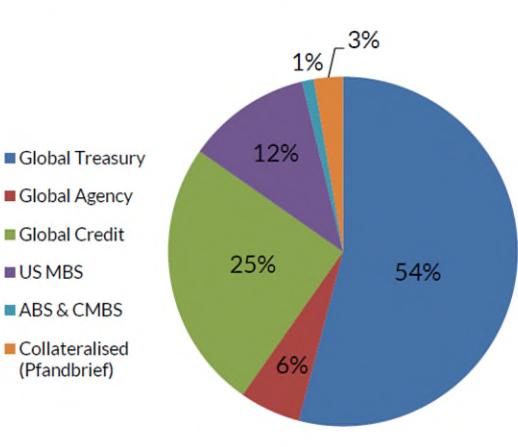
Sources: Bloomberg and State Street Global Advisors. Note: Data as of March 2019.

## Barclays Global Aggregate Index by Country



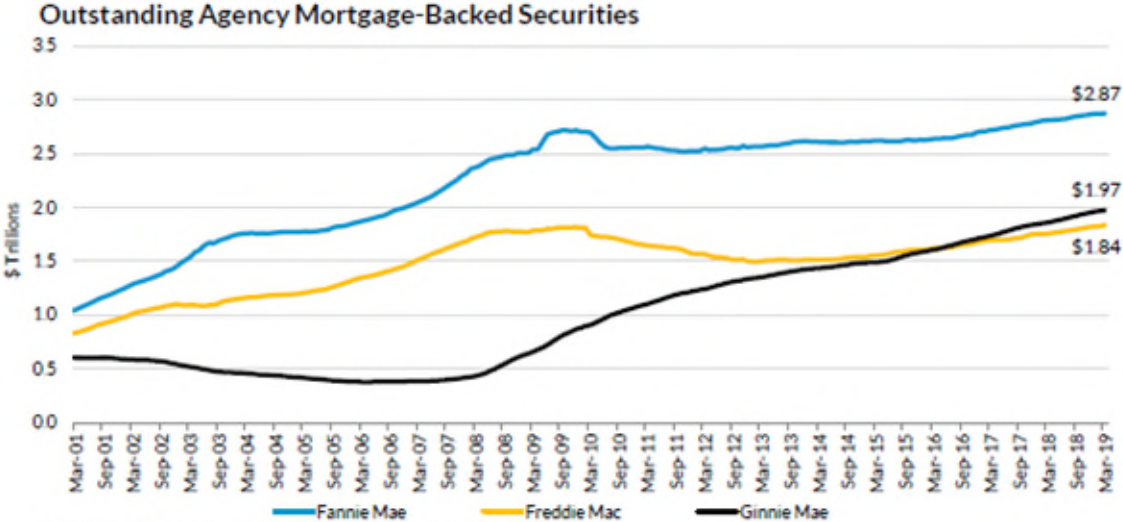
Sources: Bloomberg and State Street Global Advisors. Note: Data as of March 2019.

## Barclays Global Aggregate Index by Sector

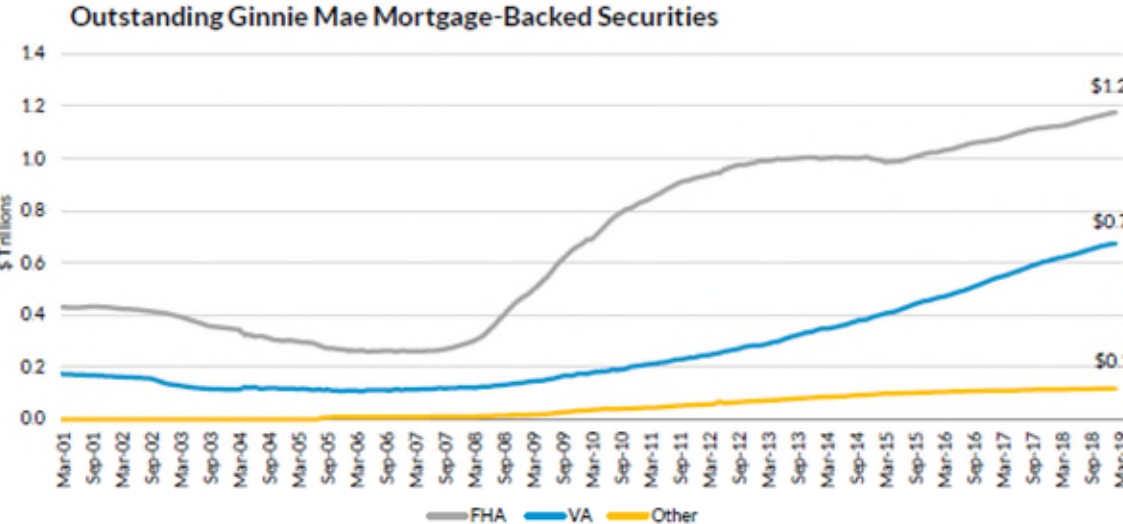


Sources: Bloomberg and State Street Global Advisors. Note: Data as of March 2019.

# 2019 Ginnie Mae Summit



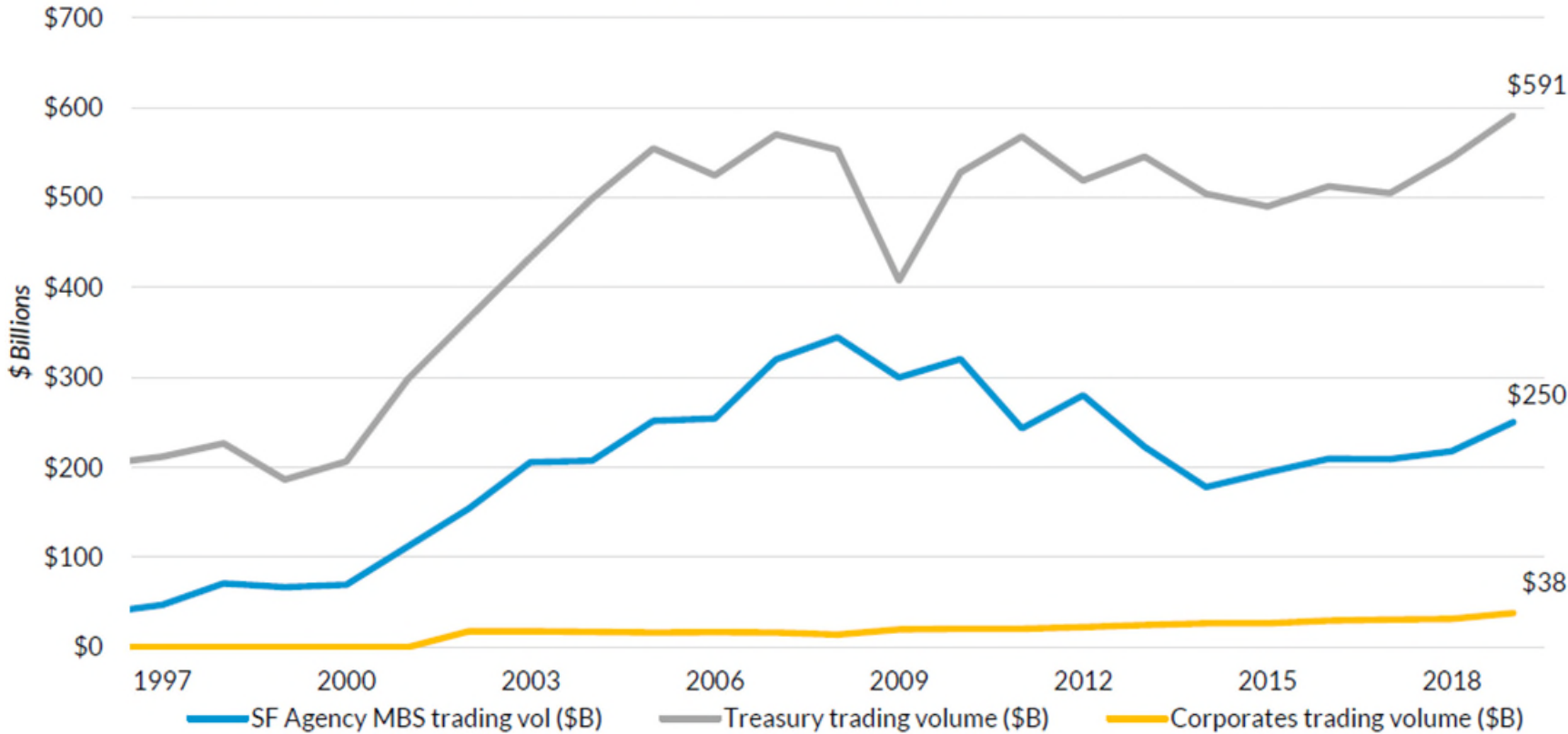
Sources: eMBS and Urban Institute. Note: Data as of March 2019.



Sources: eMBS and Urban Institute. Note: Data as of March 2019.

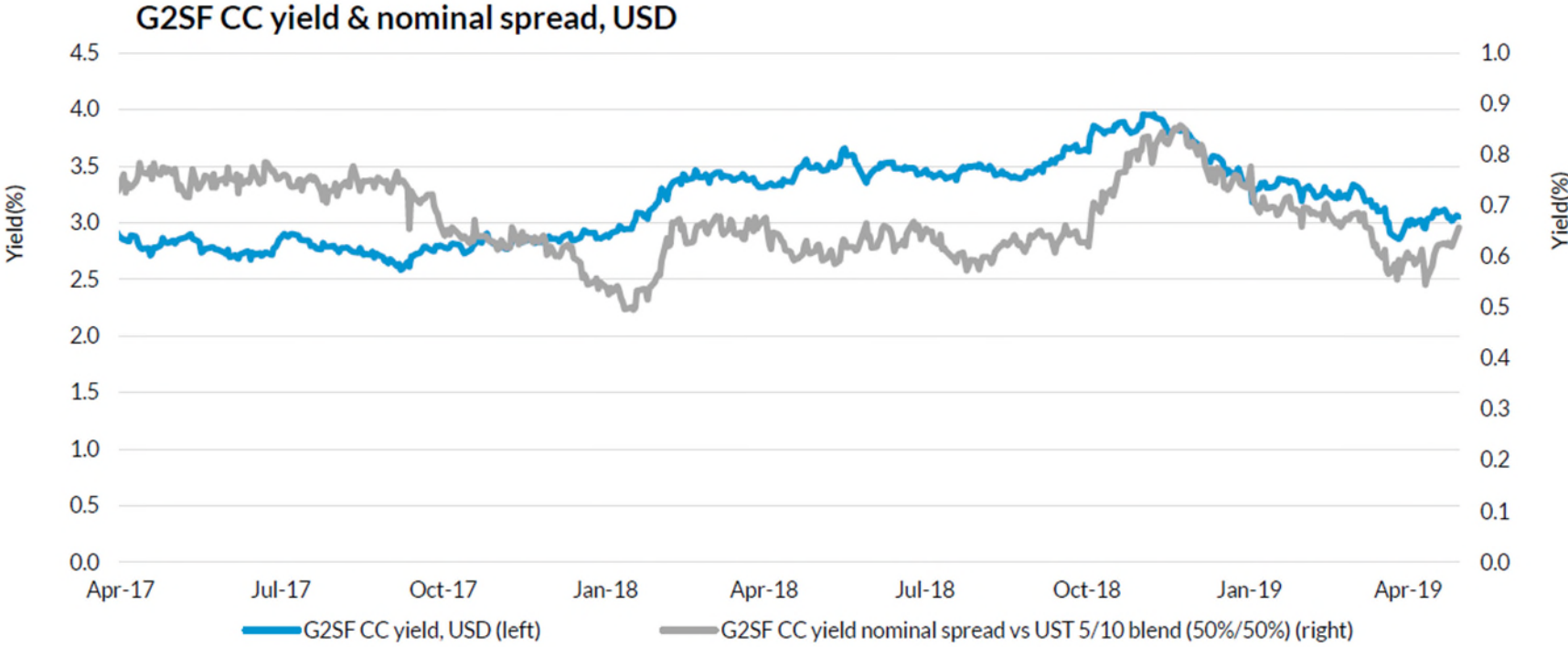
# 2019 Ginnie Mae Summit

## Average Daily Fixed Income Trading Volume by Sector



Sources: SIFMA and Urban Institute. Note: Data as of April 2019.

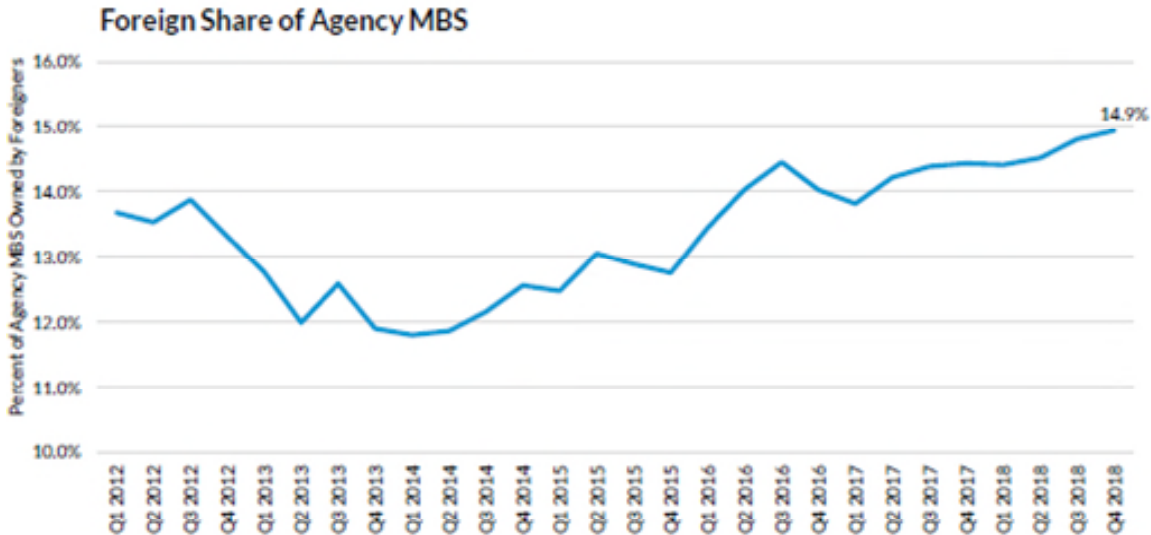
# 2019 Ginnie Mae Summit



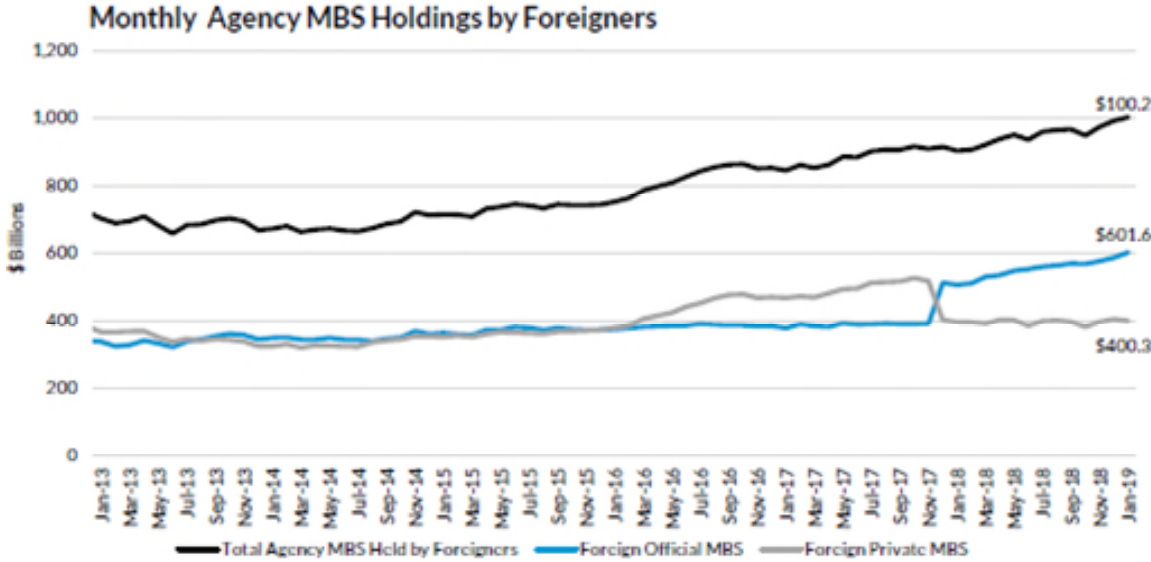
Sources: Bloomberg and State Street Global Advisors. Note: Data as of April 2019.



# 2019 Ginnie Mae Summit



Sources: SIFMA and Treasury International Capital (TIC). Note: Data as of Q3 2018.





# Disclaimers

---

©2010 The International Bank for Reconstruction and Development / The World Bank 1818 H Street NW Washington DC 20433/ Telephone: 202-473-1000/ Internet: [www.worldbank.org](http://www.worldbank.org)

E-mail: [feedback@worldbank.org](mailto:feedback@worldbank.org)

**All rights reserved.**

This work is a product of the staff of the International Bank for Reconstruction and Development/The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

## **Rights and Permissions**

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development / The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.