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Low Credit Enhancement on Pending Jumbo MBS

The latest jumbo mortgage-backed security from Two Harbors Investment is set to have the lowest credit enhancement levels of any deal issued this year, according to an analysis by *Inside Nonconforming Markets*. Strong performance and underwriting characteristics along with repeat issuance appears to have helped decrease credit enhancement requirements for the transaction.

The $241.06 million Agate Bay Mortgage Trust 2015-3 received a preliminary AAA rating this week with credit enhancement of 5.35 percent on the senior tranche. On the 12 deals issued in the first quarter of 2015, the lowest credit enhancement on a senior tranche was 6.05 percent for a $294.45 million jumbo MBS issued by Two Harbors in March.

The pending deal from Two Harbors received ratings from DBRS and Kroll Bond Rating Agency. The credit enhancement levels were helped by strong underwriting characteristics, although the mortgages aren't necessarily any more pristine than the "super prime" loans that have been included in jumbo MBS in recent years.

According to DBRS, the average combined loan-to-value ratio for mortgages to be included in the deal is 62.9 percent, the average credit score is 772 and the average debt-to-income ratio is 31.1 percent. "Compared with other recently-issued prime jumbo transactions, this portfolio contains a very strong FICO score and lower combined LTV ratios with a much less barbelled distribution," the rating service said.

KBRA noted that 25.5 percent of the mortgages have a combined LTV ratio of 75.0 percent or greater, though none have a combined LTV ratio above 80.0 percent. Only four borrowers had credit scores below 720.

Most of the loans are 30-year fixed-rate mortgages, none of which has interest-only terms. The loans have seasoned for an average of two months and the oldest has seasoned for four months. Some 95.0 percent of the mortgages are for a primary residence and there are no investment properties in the transaction.

Some 64.1 percent of the mortgages were originated via the retail channel, and the broker channel's share is 31.2 percent. The top contributors to the deal are NYCB Mortgage with a 14.5 percent share, George Mason Mortgage (12.9 percent) and Parkside Lending (11.0 percent). Cenlar will handle servicing.

The deal also includes traditional lifetime representations and warranties with no sunset and due diligence was completed on all of the mortgages, with 88.7 percent of the loans receiving an A grade and the rest receiving a B grade, according to KBRA. All of the loans subject to the qualified mortgage rule were deemed safe harbor QMs.

The rating services found few negative aspects to the jumbo MBS and most of the concerns apply beyond issuance from Two Harbors, including geographic concentration risk, large loans relative to the size of the MBS and limited performance history for some of the contributors along with the issuer.

Approximately 21.8 percent of the mortgages are to self-employed borrowers. However, DBRS noted that for all of the mortgages the borrowers have an average of $308,000 in reserves, which is enough to cover over six years of monthly mortgage payments.

Jumbo MBS Trends

The characteristics of mortgages included in jumbo MBS have not shifted much in recent years, according to an analysis by *Inside Nonconforming Markets*.

On the $4.60 billion in loans included in jumbo MBS issued in the first quarter of 2015, the average credit score was 763.1, the average combined LTV ratio was 68.9 percent and the average DTI ratio was 31.6 percent.

Compared with the previous quarter, the metrics loosened slightly for credit scores and combined LTV ratios and tightened slightly for DTI ratios.

The mix between purchase mortgages and refinances also hasn't shifted much. Some 51.7 percent of loans included in jumbo MBS issued in the first quarter of 2015 were purchase mortgages.

And nearly all of the IOs that have been included in jumbo MBS since the ability-to-repay rule took effect in January 2014 weren't subject to standards for QMs because the loans had application dates that pre-dated the effective date of the ATR rule. ►