

**Mike Awadis**

Senior Vice President  
FirstSouthwest Company  
1620 26th Street, Suite 230 South  
Santa Monica, CA 90404  
Phone: 310.401.8060  
Email: [mike.awadis@firstsw.com](mailto:mike.awadis@firstsw.com)

# The Agency TBA Market

## California Housing Finance Agency Board of Directors Meeting

March 17, 2015



# Contents

---

- TBA “To Be Announced” MBS Market
- Liquidity
- Benefits when compared to MRB
- Disadvantages
- CalHFA Production Trends
- Market Volatility



# TBA (Mortgage-Backed) Securities Market

---

- Mortgage-backed securities (MBS) -- debt obligations
- The most common form of MBS are pass-through certificates
- MBS are highly liquid -- particularly those backed by agency guarantees
- Most mortgages in the US are securitized through the agency MBS market
- This trading convention significantly improves agency MBS liquidity – leading to lower mortgage rates for households
- The key distinguishing feature of agency MBS is they carry a form of government guarantee – explicit (Ginnie Mae) or implied (Fannie and Freddie)
- Other distinguishing feature is the existence of liquid forward market for trading
- “TBAs” or “To Be Announced” are a form of future contracts



## TBA (Mortgage-Backed) Securities Market – continued

---

- Vast majority of MBS trading (over 90%) occurs in the forward market – TBA Market
- Seller and buyer agree to a sale price without identifying the specific pool numbers
- Six basic characteristics -- issuer, maturity, coupon rate, price, par amount and settlement date are agreed upon
- Pools guaranteed by Ginnie Mae (a federal government agency), Fannie Mae or Freddie Mac (GSEs) can be allocated to TBA transactions
- The goal of the TBA market was to create liquidity
- A hedging tool – with settlement dates up to nine months out -- allows lenders to “lock in” sale prices for loans
  - The use of dollar rolls allows the seller to extend hedges
- Drivers of market activity are broker dealers



# TBA (Mortgage-Backed) Securities Market – continued

---

- TBA trading occurs electronically on an over-the-counter basis
  - Two platforms, DealerWeb (interdealer trades) and TradeWeb (customer trades)
  - Trades can take place via telephone, fax or e-mail – not common
- Securities Industry and Financial Markets Association (SIFMA) has specific rules regarding what constitutes TBA eligible deliveries also known as “good delivery”
- Only mortgages meeting certain size and credit quality criteria “conforming mortgages” are eligible for inclusion
- Sheer aggregate size and the homogenous nature of agency MBS contribute significantly to liquidity – compared to corporate bonds or munis
- TBA Market is the largest debt market in the world outside of US Treasuries
- Virtually every primary broker/dealer on the street and in the world makes a market in TBA MBS



# TBA (Mortgage-Backed) Securities Market – continued

---

- TBA Market is made possible largely because agency MBS are exempt from the registration requirement of the Securities Act of 1933
- Although not required, agencies do publicly disclose information about the composition of each pool
- Similar to Treasury futures, TBAs trade on a “cheapest-to-deliver” basis
- On a forty-eight-hour day, the seller selects which MBS in its inventory will be delivered to the buyer at settlement
- In practice, most TBA trades do not ultimately lead to a transfer of physical MBS
  - In most cases the seller will either unwind or “roll” an outstanding trade



# Liquidity

## Daily Average Trading Volumes in Major U.S. Bond Markets

Billions of dollars

Year	Municipal Bonds	Treasury Securities	Agency Mortgage-Backed Securities	Corporate Bonds
2005	16.9	554.5	251.8	16.7
2006	22.5	524.7	254.6	16.9
2007	25.2	570.2	320.2	16.4
2008	19.4	553.1	344.9	11.8
2009	12.5	407.9	299.9	16.8
2010	13.3	523.2	320.6	16.3

Source: Federal Reserve Bank of New York.



# TBA Program Benefits When Compared to MRB

---

- Provides a no risk forward commitment mortgage program with no costs of issuance, negative arbitrage and legal expenses
- Produces a significantly lower mortgage rate when compared with Pass-Thru and traditional MRB structures – including using zeros
- Fund down payment and closing cost assistance without using HFA funds
- Flexibility to adjust rates as the market moves -- no yield implications
- Affords HFAs the option to pay higher lender compensation
- Can be used to provide financing for non-first time homebuyers
- Program is more lender friendly -- less paperwork for the lender
- Can be combined with MCCs thus creating a lower effective mortgage rate
- Gives HFAs the option of offering refinances
- Significantly more profitable for HFAs than tradition MRBs and Pass-Thru structures both on present value and ongoing basis
- It can be used as a tool to accumulate MBS for future bond transactions
  - Either “Pass-thru” or “Traditional MRB” structures
  - HFA has the option to repurchase its MBS at prevailing TBA levels



## Disadvantages

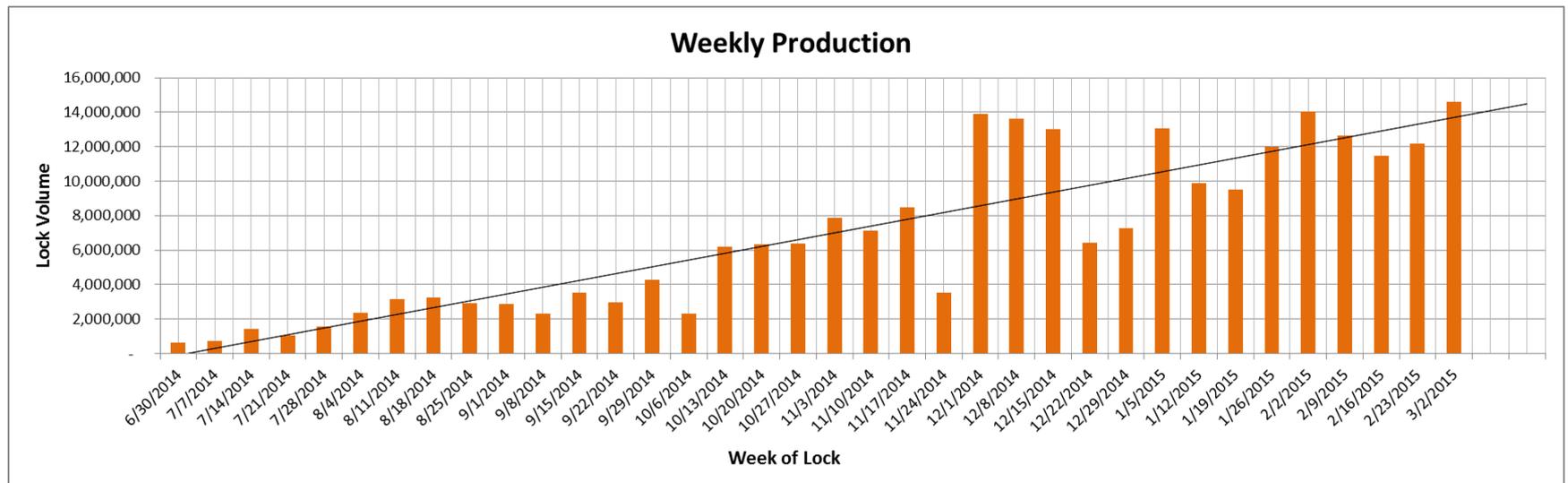
---

- Because it does not require explicit authority to issue bonds or relies on volume cap, other entities can offer competing programs
  - Cal Rural Home Mortgage Finance Authority (CHF) operates a statewide program in California – in light of its power to only operate on 32 rural counties
  - National Homebuyers Fund – a nonprofit subsidiary of CHF – operates statewide programs in 25 other states
- No ongoing issuer fee income, the HFA's income is made up of gain-on-sale and residual income when the DPA or the second mortgage is repaid

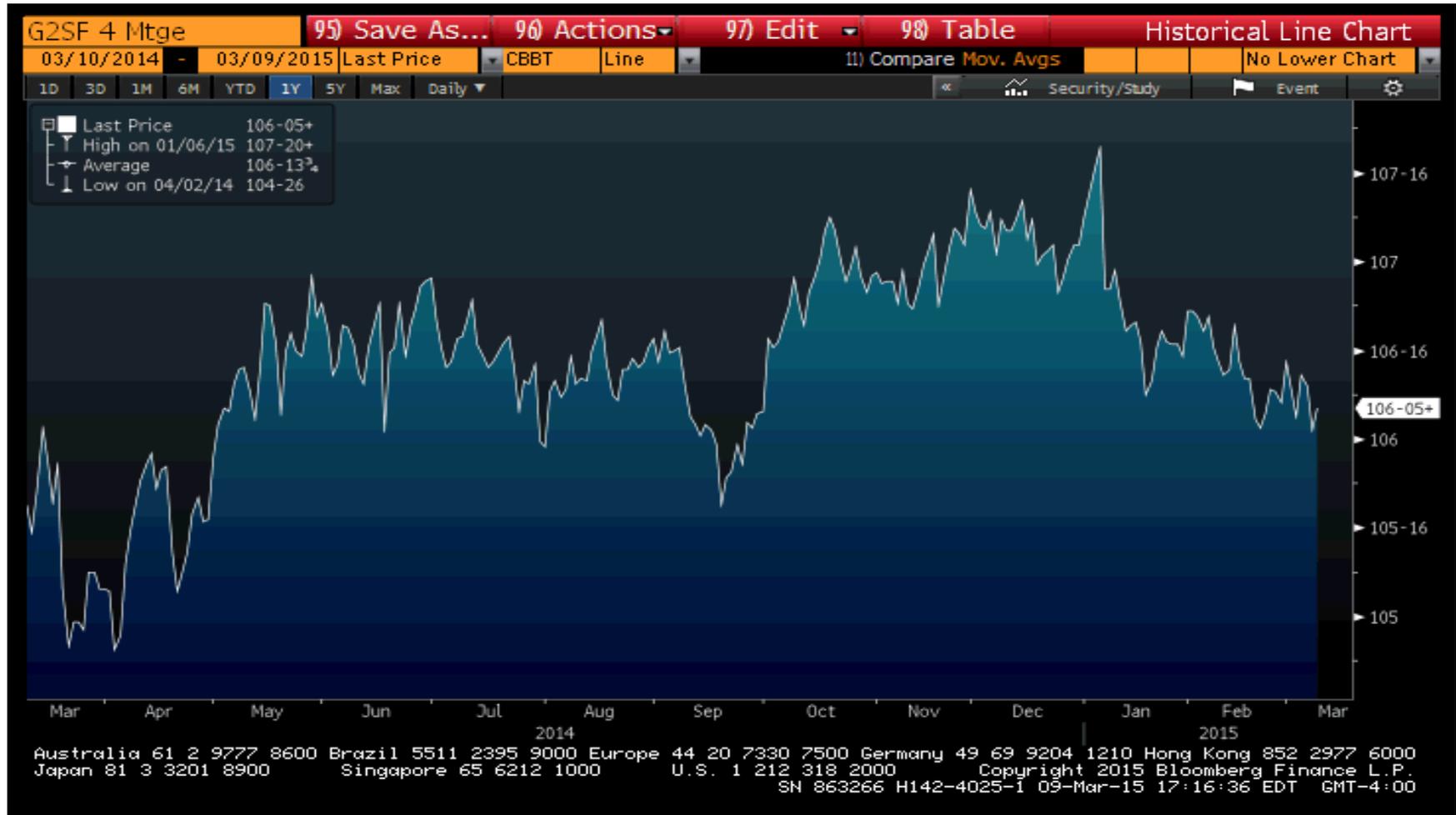


# Production Trends

- Average weekly locks since inception \$3.1 million
- Average weekly locks as of July 1, 2014 - \$6.8 million
- Average weekly locks the last 60 days - \$12.1 million
- Average loan amount of \$240,000



# Market Volatility



# Disclaimer

---

This presentation is intended for educational and informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this presentation was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute FirstSouthwest's views as of the date of the report and are subject to change without notice. This presentation represents historical information only and is not an indication of future performance.

