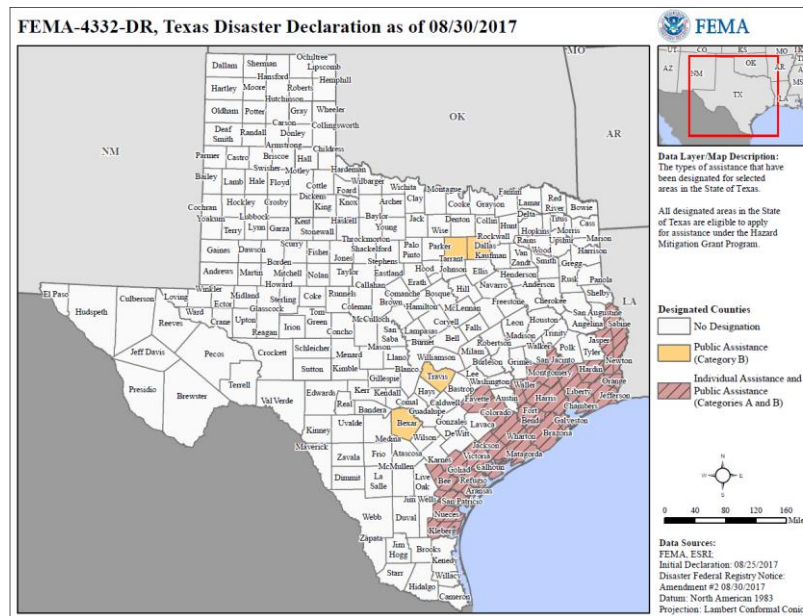


# Harvey's Impact on Credit Risk Transfer

September 14<sup>th</sup> 2017

Initial reports coming through are that Hurricane Harvey could leave parts of southeast Texas uninhabitable for months. The FHA, Fannie Mae, and Freddie Mac have announced that they are suspending evictions and foreclosures on homes in eligible disaster areas.

Fannie Mae guidelines state that the mortgage servicers may suspend or reduce a borrower's mortgage payment for up to 90 days if the servicer believes a natural disaster has adversely impacted the value or habitability of the property. The servicer may offer forbearance for up to six months, and this can be extended for an additional six months for those borrowers who were 90 days or less delinquent when the disaster occurred. Freddie Mac offers similar short term forbearance programs that eliminate any late charges and fees associated with the forbearance.

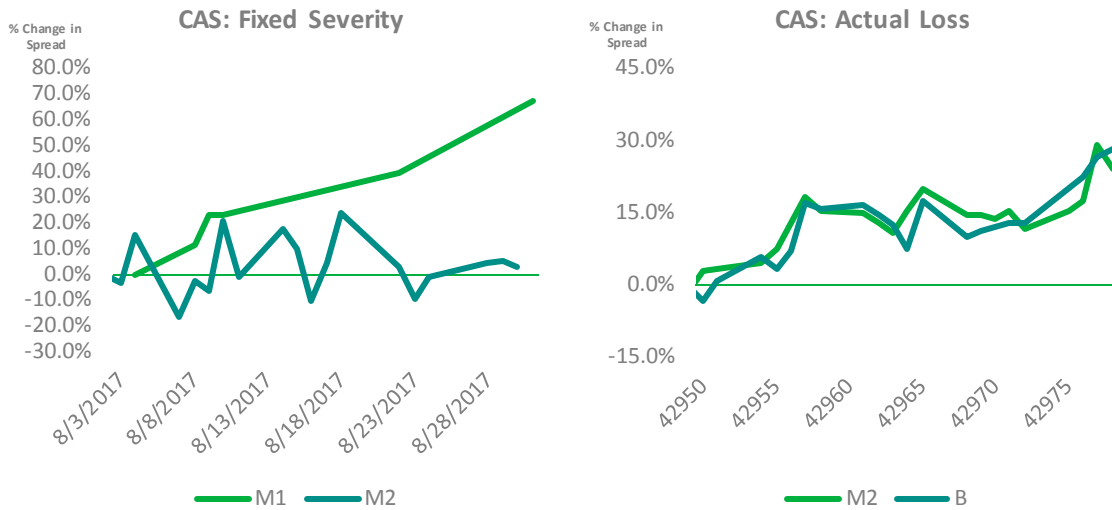


Source: Fema.gov

### Spread Widening

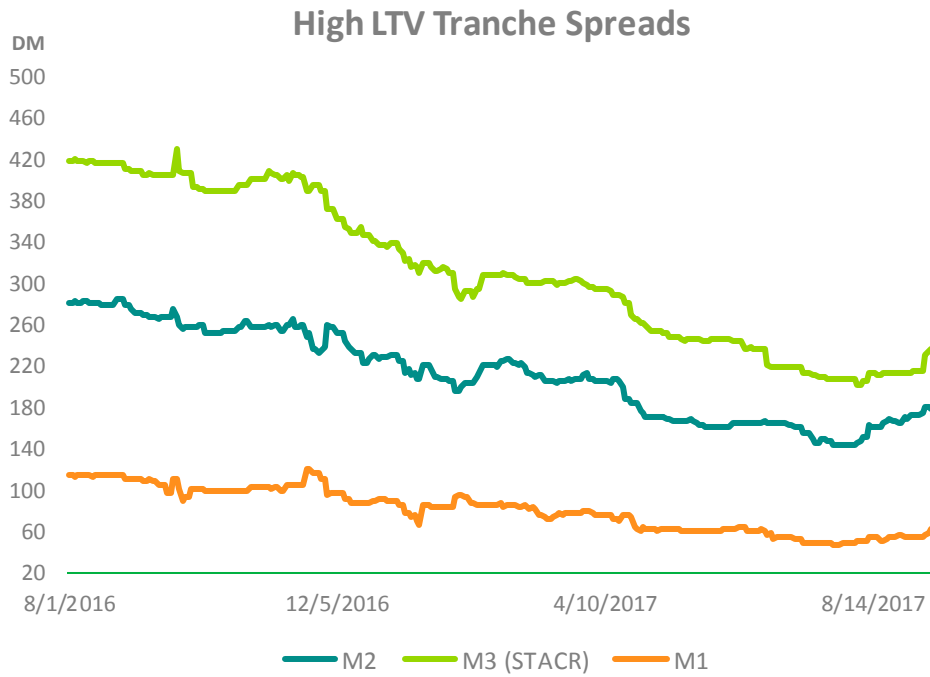
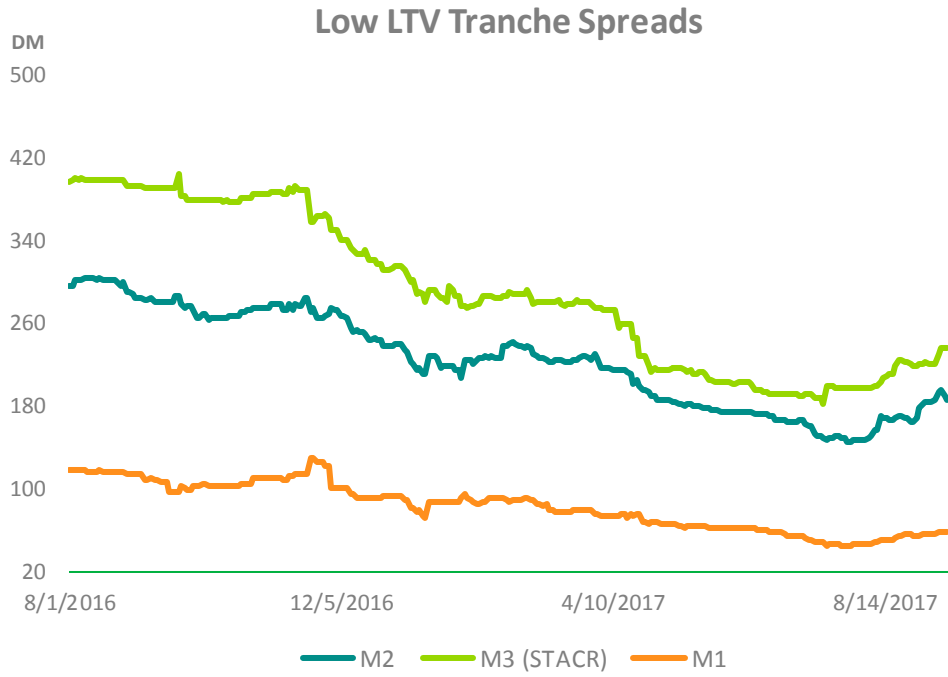
Hurricane Harvey has exacerbated an already turbulent month within the Credit Risk Transfer (CRT) space. Spread measurements have been volatile throughout the month and are now trending significantly wider since the news of the storm was made public in mid-August.

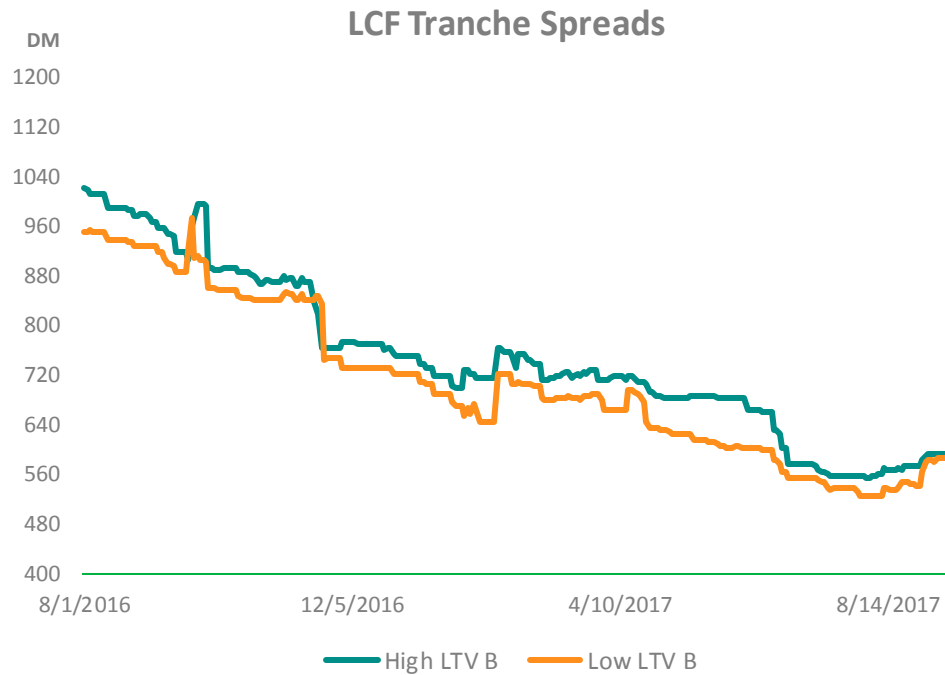
Per the graphs below, spread measurements have been widening out consistently throughout the month however we are observing significant widening from Actual Loss and Fixed Severity Connecticut Avenue bonds.



Our [IHS Markit Weekly Mortgage Snapshot](#) shows the movement in M1, M2, and B tranches have widened approximately 6, 34, and 29 bps, respectively, over the past month. This widening in spread is inconsistent with what we have observed over the past year in a sector that has experienced a trend of steady tightening. See our IHS Markit CRT sector spreads in the graphs below.

As a result of this storm, we expect increased modifications and severities in areas impacted by Harvey as a low share of properties have flood insurance in these areas versus prior incidents. With the additional impact of Hurricane Irma in Jacksonville and other parts of Florida, we expect continued widening in the sector and possible credit rating downgrades depending on the severity of the two storm's impact.





\* Excluding B2 tranches from STACR 17-DNA1/DNA2/HQA1

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