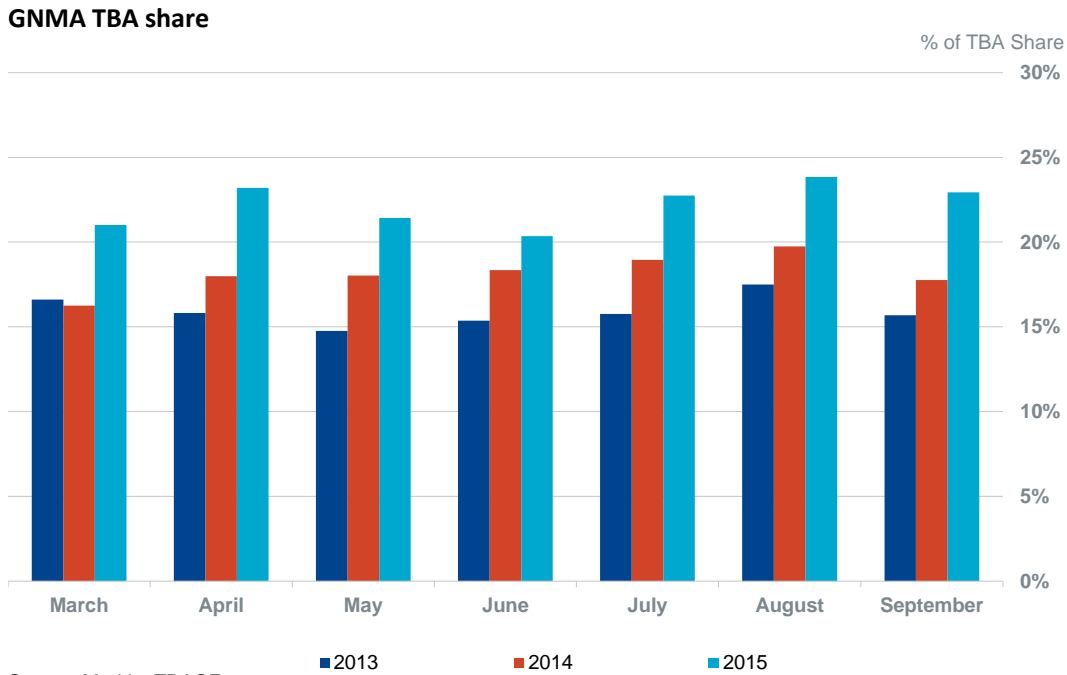


GNMA liquidity trends

Agency MBS market update / Friday, October 09, 2015

Ginnie Mae activity

Markit data indicates that Ginnie Mae (GNMA) securities within the agency MBS market have become increasingly active in recent months, especially when compared to historic trends and metrics. Key changes in regulation and policy have stimulated trade activity and increased market demand for GNMA products. Markit's securitized products pricing service has integrated these important market trends into its pricing assumptions for agency pass through and CMO securities.

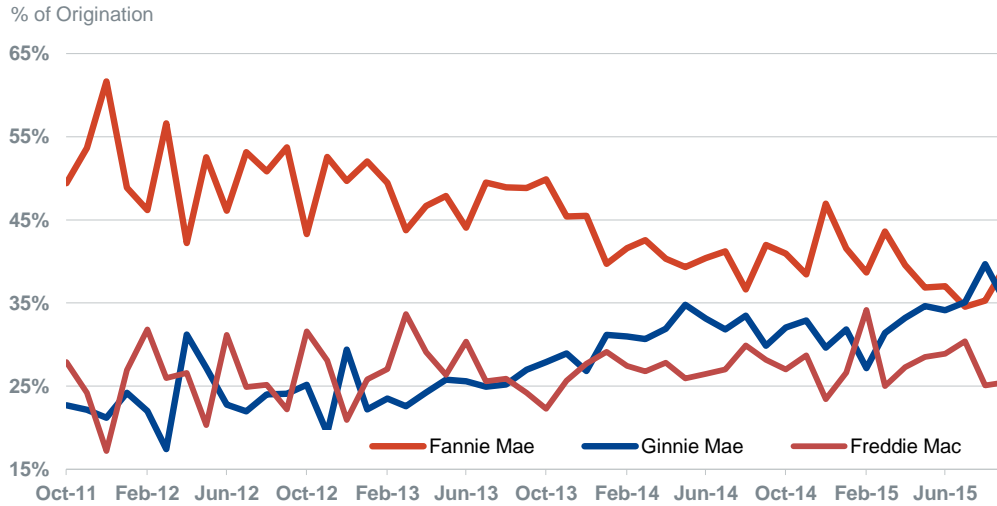


Regulation and policy

Basel III regulation will soon require banks to hold adequate levels of High Quality Liquid Assets (HQLA) to satisfy requirements as defined by the Basel Liquidity Coverage Ratio (LCR). Assets that are eligible for LCR are categorised into different tiers: Level 1, Level 2A and Level 2B. Banks can hold Level 1 assets without limit, while Level 2A assets are capped at 40% and Level 2B at 15%.

GNMA MBS are considered a Level 1 asset under LCR provisions. The volume of GNMA TBA trade activity has increased markedly since 2013, suggesting that demand for Level 1 assets has contributed to the increased share of trade activity.

Fixed rate issuance by agency



Source: Markit, eMBS

Issuance of GNMA MBS surged in early 2015 in response to the US Department of Housing and Urban Development (HUD) implementation of a 50bps reduction in the mortgage insurance premium (MIP), making GNMA mortgages relatively more affordable for borrowers. The MIP for eligible FHA insured mortgages went from 1.35% to 0.85%, spurring a wave of new issuance and refinancing for GNMA borrowers.

Sector overview

We have also observed increases in pay ups across key GNMA MBS story types. Specifically, GNMA2 30yr 4.0 coupon loan balance stories demanded substantially higher pay ups in Q1 and the beginning of Q2 2015. New issue collateral has consistently traded at least 10 ticks above the TBA level throughout the year.

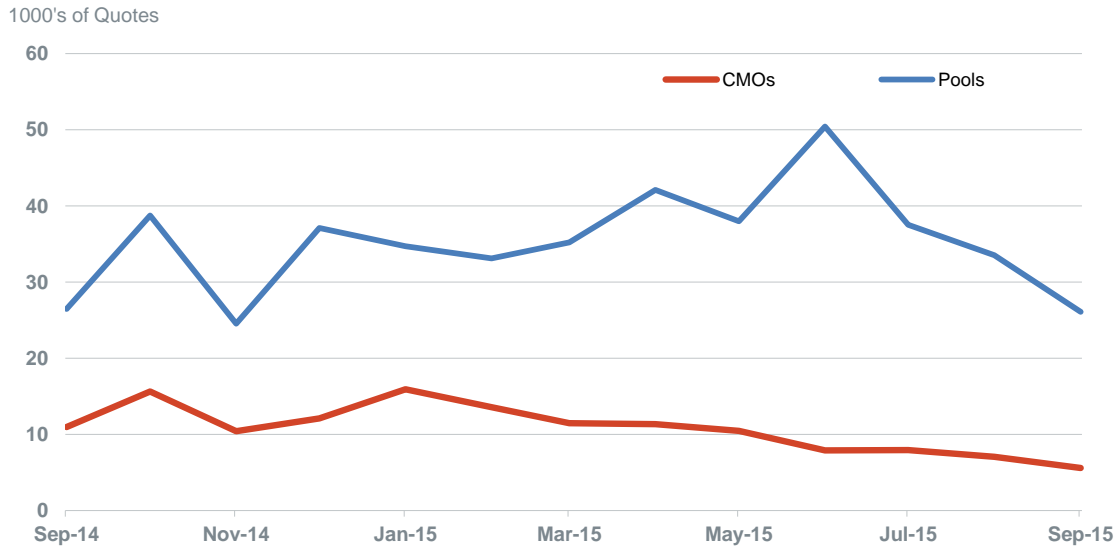
Spec type	Pay up									
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
New Issue	0-10	0-10	0-10	0-20	0-10	0-20	0-10	0-10	0-10	0-20
85K Max	1-18	2-06	2-25	2-16	3-04	2-06	1-27	1-18	2-06	2-06
110K Max	1-08	1-27	2-06	2-06	2-25	1-27	1-18	1-08	1-27	1-27
125K Max	0-29	1-18	1-27	1-18	1-27	1-08	0-29	0-29	0-29	0-29
150K Max	0-29	1-08	1-18	1-18	1-27	1-08	0-29	0-29	1-08	1-18
175K Max	0-20	0-29	0-29	1-08	0-29	0-29	0-20	0-20	0-29	0-20

Based on: GN2.30.400 Collateral

Source: Markit

Data from Markit's Parsing service illustrates increased activity for GNMA structured products. Specified pools and CMOs backed by GNMA mortgages experienced spikes in observed quote activity in late 2014 and early 2015. Quotes on GNMA specified pools grew even more in mid-2015 on the tailwinds of increased GNMA supply due to changes in policy and regulation.

Ginnie Mae observed quotes



Source: Markit

About Markit Pricing Data for securitised products

Markit's securitised products pricing service provides independent evaluated pricing, sector level timeseries and transparency metrics across agency pass through, agency CMO, non-agency RMBS, consumer ABS, European ABS, CMBS, CDO and CLO asset classes. For further information please email usabspricing@markit.com

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