Residential NPL, RPL sales to rise 12%–32% next year — Mission Capital
by Al Yoon
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Bulk sales of residential whole loans ebbed this year but are likely to grow by 12%–32% in 2015, according to broker Mission Capital Advisors.

The supply will come from HUD, commercial and regional banks, according to Mission. Rumblings are also growing louder that Fannie Mae and Freddie Mac will weigh in with significant sales of non- and re-performing loan sales, said an investor and a whole loan source.

Mission Capital, in a forecast provided exclusively to *Debtwire ABS*, expects bulk non-performing and re-performing loan sales will accelerate to USD 38bn–USD 45bn in 2015 after slipping about 3% to USD 34bn this year, said Luis Vergara, managing director and head of residential trading at the New York firm that also brokers commercial loans.

The additional supply will likely come from commercial banks, which have grown more comfortable with the oversight of the Consumer Financial Protection Bureau, which requires scrutiny of the counterparties in any trade, he said. Earlier this year, banks had trouble deciphering CFPB regulations, slowing the pace at which they offloaded loans, he said.

Mission's expectations come close to the base case forecast of Compass Point Research & Trading, which calls for USD 37.7bn in annual supply through 2016, about half from commercial banks, as reported (see article, 10 December).

Access to cheap financing through warehouse lines and securitization will also encourage more bulk sales, according to the investor.

NPL-RPL RMBS volume seen steady

Non-performing loan securitizations have represented the fastest growth in the non-agency RMBS market. Issuance has grown to USD 12bn this year from USD 6.9bn in 2013 and USD 2.4bn in 2012, according to Deutsche Bank in a 10 December report. Along with re-performing loan securitizations, volume should be steady next year at about USD 10bn–USD 14bn, the analysts said.

Demand for NPLs has eased since mid-year, however, potentially limiting the prices that investors will want to pay for collateral in future sales. Caliber Home Loans, a frequent issuer controlled by private equity giant Lone Star Funds, paid 4% yields on the senior class of its latest NPL RMBS, a 50bps premium to bonds sold just a month earlier. Investors are concerned about thin liquidity in the deals, which could harm pricing if credit markets were upset by geopolitical events or rising interest rates.

In any event, much of the flow appears to be shifting to re-performing loans, which have grown as loan servicers complete modifications and the economy improves. Re-performing loans make up about 21% of all non-agency loans today, more than four times the share at the beginning of 2010, JPMorgan data show.

"Interestingly, sales volume composition has shifted to involve more re-performing loan trades due to enhanced pricing and capital relief relative to heavily discounted NPLs," said Vergara, of Mission Capital.

Re-performing loans have been about 35%–40% of supply by deal count, a trend that will continue into 2015, Vergara said.

GSEs expected, finally

In addition to routine sales from HUD and money center banks, Vergara expects regional banks will reduce their holdings of “cost-prohibitive balance sheet assets” to meet stricter capital requirements.

What’s more, the GSEs will be bigger players next year, potentially adding “large volumes” to supply, the investor said. Freddie Mac completed a pilot program sale of USD 659m in August, deeming the sale well received and vowing to find more opportunities to reduce its less-liquid assets as directed by the FHFA.

The GSEs are also still understood to be considering securitizations of NPLs, a source said. Instead of selling loans outright, the GSEs could retain an interest that would allow them to share in some upside, the source added.

In November 2013, Wanda DeLeo, deputy director of the FHFA’s conservator division, said the regulator was looking at ways for the GSEs to securitize some of their loans, as reported. The following May, the FHFA charged Fannie and Freddie with developing and implementing plans for “targeted” non-performing loan sales but did not mention securitization.