“Anworth Puts Up Its Hand for Riskier Mortgage Bonds”

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By Andrew Park

NEW YORK, Oct 1 (IFR) - The universe of buyers willing to dabble in structured products with a relatively riskier profile continues to grow.

Anworth Mortgage Asset Corporation is the latest to join an already crowded list of investors interested in building a portfolio including lower-rated mortgage bonds, prime jumbo and non-qualified mortgage (QM) loans.

The mortgage REIT's senior vice president and portfolio manager Brett Roth, who recently joined the firm from TCW, said the aim was to build a mortgage conduit platform with the potential to sell its first securitization within the next year.

"The market is now evolving in mortgage credit, and we plan to get involved in the non-QM space at both the loan and security level," Roth told IFR.

The company is looking to pick up a mix of assets that even includes lower-rated subprime mezzanine tranches and dented alt-As that were originated in 2006 and 2007.

Roth also plans to participate in non-performing loan (NPL) and re-performing loan (RPL) securitizations. IFR data shows that yields on recent NPL deals have ranged from 3.25% on the senior tranches to 4.875% on the junior classes.

He plans to avoid credit risk transfer bonds issued by the GSEs, given their high credit quality, differing from mortgage REITs such as Invesco Mortgage Capital and Zais Financial, which were first time buyers this year.

In line with other REITs though, Anworth expects to enter into repurchase agreements on about 1.0x to 2.0x of its mortgage credit book to enhance the return on equity on legacy securities.

Roth is also looking to explore outside the security space to deliver returns by purchasing prime jumbo loans and eventually non-QM loans, then generate a better return by securitising them and retaining the subordinate pieces. This follows Redwood Trust, which has been securitizing prime jumbo deals even during the crisis, Invesco Mortgage Capital and Two Harbors.

By holding the subordinate bonds created in its own securitization trade, the issuer has the benefit of buying into an attractively yielding asset it is more familiar with, instead of buying the higher yielding pieces of a trade done by someone else.

The reaction to Anworth's plan has been mixed, however, as some observers say they were late to the game while others said there was still value to be had.

Interestingly, other firms involved in mortgage credit for years such as MFA Financial, Two Harbors and publicly traded partnership Ellington Financial have stated that they are looking to sell down some of their RMBS as prices have run up significantly, one REIT analyst said.

Year-to-date, non-agency RMBS has delivered greater returns in the lower credit bonds. Subprime floaters from 2007 have been the strongest performing legacy bonds, with returns of 10.7% so far this year, followed by 2006 floaters at 10.4%, 2007 subprime fixed bonds with 10%, and 2006 option ARMs at 7.5%.

"This move is a little late, but (I) don't know that this trade is 'over'," an RMBS analyst said.

Others were more optimistic about Anworth's securitization platform, while noting the field has been getting more crowded of late.

"This is a great business for those who can get attractive term funding and are the right size," said one hedge fund investor.

Return on equity after leverage is usually in the high single digits to low double digits, he said. "The conduit business is an obvious choice for many funds, but a very crowded one too," the RMBS analyst said.

The Triple A rated tranches of newly originated prime jumbo deals are currently trading two points tighter than comparable GSE TBAs, so there is very little juice left for those looking to monetize their prime jumbo loan portfolio. The underlying loans are often purchased between 101 to 102, the investor said.

Competition for the loans is thus intense, as money center banks face declining net interest margins and more investors look for prime jumbo loans.

Securitization for non-QM loans is expected to be more profitable however. Non-QM loans have coupons ranging between 6.25% to 7.25% compared to a 30 year fixed around 4%, but there are potential legal issues which originators could face on loans made to borrowers with over 41% debt-to-income.

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