HOUSINGWIRE
FINANCIAL NEWS FOR THE MORTGAGE MARKET

The New RMBS Investor Meets Due Diligence 2.0

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Wednesday, January 27th, 2010, 12:06 pm

http://www.housingwire.com/2010/01/27/the-new-rmbs-investor-meets-due-diligence-2-0/

Much is being made about creating a new private-label residential mortgage backed securitization (RMBS) market.

And why not? It's great for financing, it will help balance alarming FHA dominance, as serve as a foil to the highly anticipated covered bond market (just as soon as we get some legislation). Yes, it looks to be a perfect synergy, a trinity of three mortgage-financing options.

And if the press is to be believed, it is right around the corner.

Next week the American Securitization Forum is hosting its event in Washington. And certainly supporting arguments for a new RMBS platform (and then another, and another) by Q210 will be made.

After all RMBS is hopping abroad and demand is at a two-year high for a jumbo deal.

But let's be clear, these securitizations will show little resemblance to the securitizations that first got us into this mess.

And so, for all we know, investors are chomping at the bit. But are they really? No doubt this will take center stage at the ASF's coffee breaks and cocktail hours.

For now, let's put aside some nagging issues, even though it is a more immediate topic — such as who's going to insure this new RMBS now that monolines are largely out of the space. Or how will we reinstate eroded confidence toward the credit rating agencies. While structural issues, these do not present any insurmountable challenges. For example, the National Association of Insurance Commissioners is revising regulatory risk-based capital requirements, allowing lower capital reserves against already impaired bonds.

Sue Allon of risk manger Allonhill is honest when she says she now believes the first RMBS may not be as red hot as we all hope. She's launching a new product at the ASF, which is under wraps until Thursday, but I can give you a brief, exclusive idea of what this will look like in terms of what the new RMBS investor is going to expect.

I've coined it Due Diligence 2.0.

Allon, and potentially others, are busy creating a more transparent market, for an investor base that is likely to be "all belts, suspenders and safety pins," she says, when it comes to the very exact decision-making they are expected to employ in such "a cautious market."

I promised not to release any proprietary information on the product, but I will say it is exactly the sort of thing the market needs. To put it basely: it will be Allonhill's name on the line if they call something wrong.

Is this the new formula for success?
Transparency + Accountability = Investor Confidence.

"They want evidence of any errors and they want to see solutions enacted and reported," Allon said. "We want to give investors full disclosure, in accordance with what the rating agencies are requiring."

So let's all do a better job the second time around? Well, we have to. The demand may be lukewarm, but that can and will change. Meanwhile, not all mortgages are GSE. Stockpiles of prime paper are growing: good credit scores, stable prepay rates, low LTVs.

This collateral won't sit unwrapped forever.

The temptation to do something is proving too great. And private-market solutions are frankly proving to be the best solutions out there.

We are just waiting for someone to cast the first stone.