

RMBS Research

Reperforming Deals are Outperforming Expectations

September 2017

Morningstar Perspective

Mill City 2016-1, Towd Point 2016-4, and Towd Point 2016-5, which are reperforming loan transactions rated by Morningstar Credit Ratings, LLC, performed better than we expected. Prepayments have been higher and delinquencies have been lower than we projected at closing. The loans that have paid in full have more favorable characteristics on average than the total pool at closing.

Chart 1a

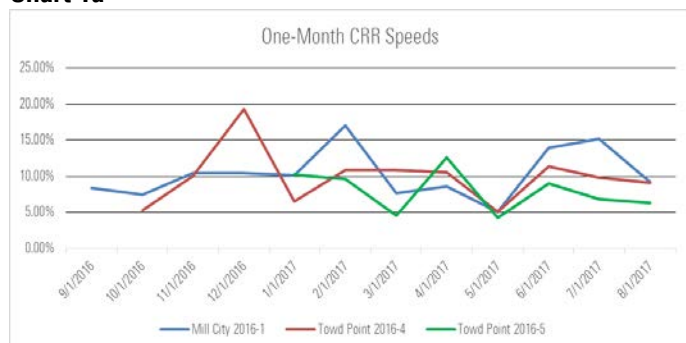


Chart 1b

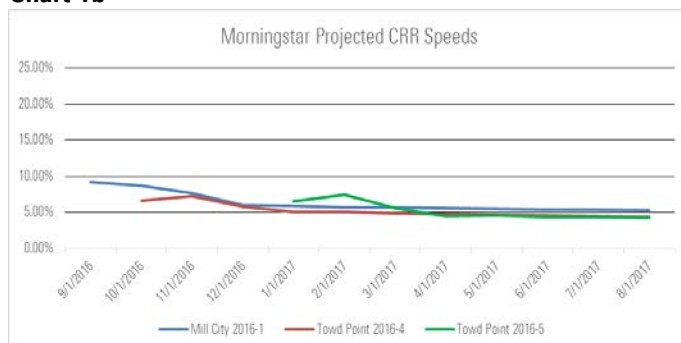


Chart 1a displays the one-month constant repayment rate speeds as reported in Intex. Chart 1b shows the projected monthly CRR speeds in the Morningstar B rating scenario when the transactions closed. Morningstar's B rating scenario assumes no change to house prices and uses the forward curve to project interest rates. House prices have increased in the past year, and mortgage rates have not increased as much as we expected, so it is reasonable that prepayments would be higher than projected.

Analysis

Table 1a shows the summary characteristics of the total pools when the transactions closed, referencing data tapes Morningstar used in rating the transactions. Table 1b shows the summary characteristics, as of closing, of the loans that have paid in full. We calculated the weighted average loan-to-value ratio and FICO score using both the scheduled and deferred balances, while we based the weighted average coupon on the scheduled balances only. The loans that have paid in full have lower LTVs, higher FICOs, and higher coupons on average than the total pool.

Table 1a – Original Pool Characteristics

Transaction	WA LTV (%)	WA Nonzero FICO	WA Coupon (%)
Mill City 2016-1	82.4	696	4.0
Towd Point 2016-4	91.5	676	4.7
Towd Point 2016-5	85.9	677	4.1

Source: Morningstar Credit Ratings, LLC

Table 1b – Original Pool Characteristics of Paid-in-Full Loans

Transaction	WA LTV (%)	WA Nonzero FICO	WA Coupon (%)
Mill City 2016-1	73.9	717	4.4
Towd Point 2016-4	72.8	705	5.1
Towd Point 2016-5	72.0	695	4.8

Source: Morningstar Credit Ratings, LLC

As the loans with more favorable characteristics repay, the characteristics of the remaining pool may decline; however, delinquencies have been lower than we expected, as shown in Table 2. As loans make more timely payments, the probability of default decreases, all else equal. Because the loans were current when the transactions closed, it is too early for the foreclosure process to be completed, so defaults and losses remain low.

Table 2 – Actual and Projected 60+ Day Delinquency

Transaction	Actual Delinquency (%)	Projected Delinquency (%)
Mill City 2016-1	1.6	3.3
Towd Point 2016-4	2.1	4.5
Towd Point 2016-5	2.3	3.0

Sources: Morningstar Credit Ratings, LLC, Investor Reports

The performance of reperforming securitizations rated by Morningstar has been better than we projected in our B rating scenario, with higher prepayments and lower delinquencies than originally expected. Morningstar will incorporate the performance of the loans in these transactions in our surveillance process.

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