AUGUST 7, 2019

Weekly Comments by Mark Cary

GROW YOUR MORTGAGE PORTFOLIO FASTER AND MORE PROFITABLY — PART 2

Last week, Mitchell Redd highlighted the impact that lower rates are likely to have on portfolios as we move through the second half of 2019. In his comments, he indicated that recent refinance activity is likely to have the effect of cannibalizing the portfolio. Now that the Fed has cut rates for the first time since 2008, the impact to the balance sheet could be even more significant.

10-Year Treasury — A Lot has Changed Since January

The 10-year Treasury has seen a significant shift since the beginning of the year, with the latest move (thanks to the Fed's announcement last Wednesday) down below 2.00%.

Source: Bloomberg

As Mitchell indicated in his comments last week (a link to last week's *Weekly Comments* is provided below), this can have the effect of shifting the profile of your existing portfolio to one that is more balanced from an interest rate sensitive perspective to one that is again, heavier in longer-term, lower-coupons loans. With this movement, longer-term, lower-coupon loans currently on the balance sheet are now at a position where it makes financial sense to purge them from the portfolio.

It's a double-edged sword in that new originations will likely be lower-coupon fixed rates, while at the same time those borrowers with adjustable-rate loans will look to move out of their ARMs into fixed as well. This two-edge sword can have a damaging effect to the overall IRR position of the balance sheet.

Survey the Damage

The first thing we recommend doing is running a Mortgage Portfolio Performance Analysis (Mortgage PPA) incorporating our Historical Prepayment Study, to evaluate the impact that the lower rate market is having on your overall portfolio. We can measure the trends in your portfolio and compare them to that of your peers, as well as all portfolios we analyze along various touch points, such as:

- Measure the shift in the Fixed/ARM ratio
- Evaluate the trend in yields
- Explore the Liquidity Profile
- Examine Price Volatility and Interest Rate Risk
- Determine your actual CPR speed and highlight loans with fastest projected speeds

An illustration of these metrics and our trend, peer analysis is in a link at the end of today's comments.

Take Action

As highlighted in last week's comments, below are just a few potential solutions that FTN Financial Capital Assets Corporation (Capital Assets) has significant experience to assist your institution with implementing:

- Selling Bulk-Seasoned Long-Term, Low-Coupon Fixed Rates
- Purchasing Jumbo ARMs
- Targeting Bulk Portfolios for Purchase
- Developing a Flow Purchase Program

Evaluate the Impact

Through its suite of analytics including the Mortgage PPA, the Mortgage Yield Recovery Analysis, and the Portfolio Engineering Tool, Capital Assets can assist you in evaluating your portfolio as it is now, modeling potential strategies and monitoring the impact of strategic action.

Your Partner

Capital Assets stands ready to assist you in weathering the changing market conditions, and it all starts with a Mortgage PPA. If you haven't run a Mortgage PPA or it's been a while since your last analysis, contact your FTN Financial Representative or Capital Assets directly at 1.800.456.5460 today to get started.

REFERENCED LINKS

Mortgage PPA Executive Summary, Trend and Peer Analysis

Weekly Comments by Mitchell Redd

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