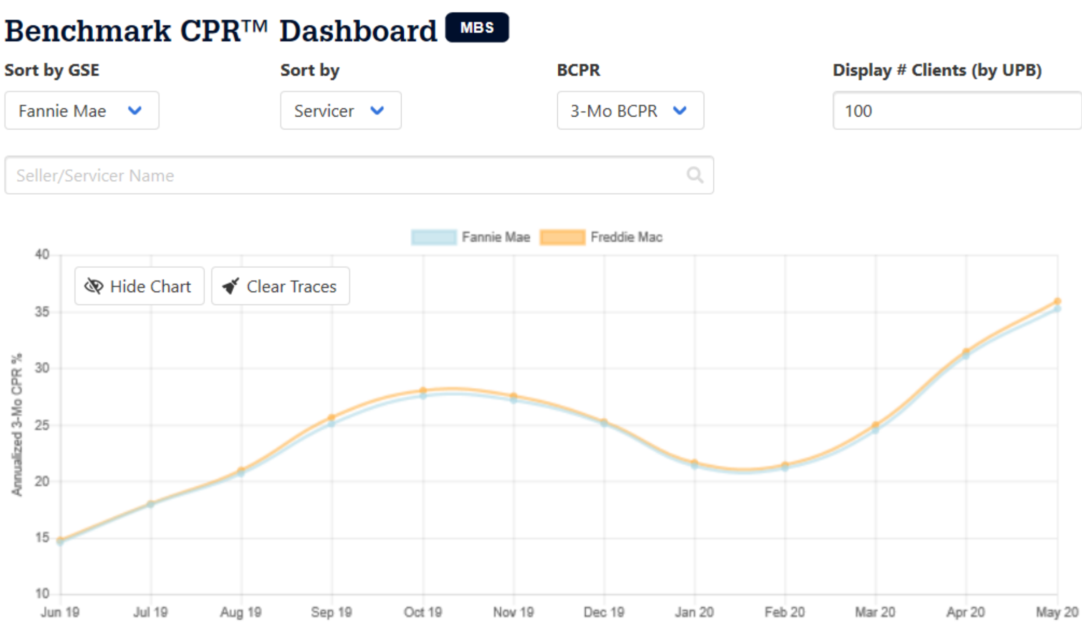
Fannie Mae Benchmark CPR™ Commentary

Fannie Mae developed our Benchmark CPR framework to facilitate proactive engagement with sellers and servicers. In March, we made our Benchmark CPR framework available to market participants by launching the Benchmark CPR dashboard on [Data Dynamics®] and releasing a [methodology overview]. As part of our continuous efforts to engage with market participants, we are introducing a monthly commentary to discuss insights arising from the Benchmark CPR data.

June 2020 Commentary

Fannie Mae Cohort Benchmark CPR3 came in at 35.2 CPR for the month of May, which was a 13% increase from the 31.1 CPR observed in April. As a reminder, our flagship metric, the Benchmark CPR3, is calculated from the three-month weighted average single monthly mortality (SMM) rate. However, the most recent one-month components of the Benchmark CPR3 show a marginal slowdown from 38 CPR in April to 35 CPR in May. This is a reversal of the significant acceleration observed in the last few months, from 22 CPR in February to 38 CPR in April.

Exhibit A.



Report includes the entire population for the last 24-months of issuance, all coupons, 30-year fixed rate, top 100 Servicers by Current UPB.*
**Rolling 24 month lookback for which a 3 month CPR is available.*

Source: Fannie Mae Data Dynamics: https://datadynamics.fanniemae.com/data-dynamics/#/report/17

May prepay speeds once again surprised the market, which was forecasting a 10-15% decline in speeds. The forecasts appear to have underestimated the resiliency of the mortgage industry and specifically its ability to close loans for the past three months, leading to prepayment surprises, with actuals exceeding expectations. Any supply chain issues appear to have been more than offset by the average mortgage rate dipping well below the key 3.5% level, resulting in a large media effect promoting refinance activity. The mortgage industry is struggling to keep up with demand, but loans are still being closed at a healthy clip despite working from home and social-distancing measures. It's worth highlighting that nearly 70% of the conventional mortgage loan population appears to be in the money by at least 0.50% in rate, assuming a 3.125% prevailing mortgage rate.

For turnover, the impacts of COVID-19 were felt early in the purchase season, as existing home sales are down 8.5% and new home sales down 15.4% month-over-month. This trend may soon reverse, as evidenced by the sharp increase in the MBA Purchase Index*. Having said that, it remains to be seen what the ultimate impact of COVID-19 will be on the seasonality of the market, and thus, prepayment speeds.

Beyond the Headline

Of note, we highlight the steepness of the WALA ramp and decreased seasoning burnout by observing the differences in Benchmark CPR1/3/6: Benchmark CPR1 (29.1 CPR), Benchmark CPR3 (35.6 CPR) and Benchmark CPR6 (40.7 CPR).

The key differences between the Benchmark CPR1, CPR3 and CPR6 definitions are the seasoning requirement and the number of observations covered. The number identifies both the required amount of seasoning to be included in the reference population, as well as the number of observations averaged to produce the metric. Thus, Benchmark CPR6 ignores the most recent six months of production while adding six months of the more seasoned production to the 24-month rolling population. Please refer to the Benchmark CPR Methodology Overview for additional detail.

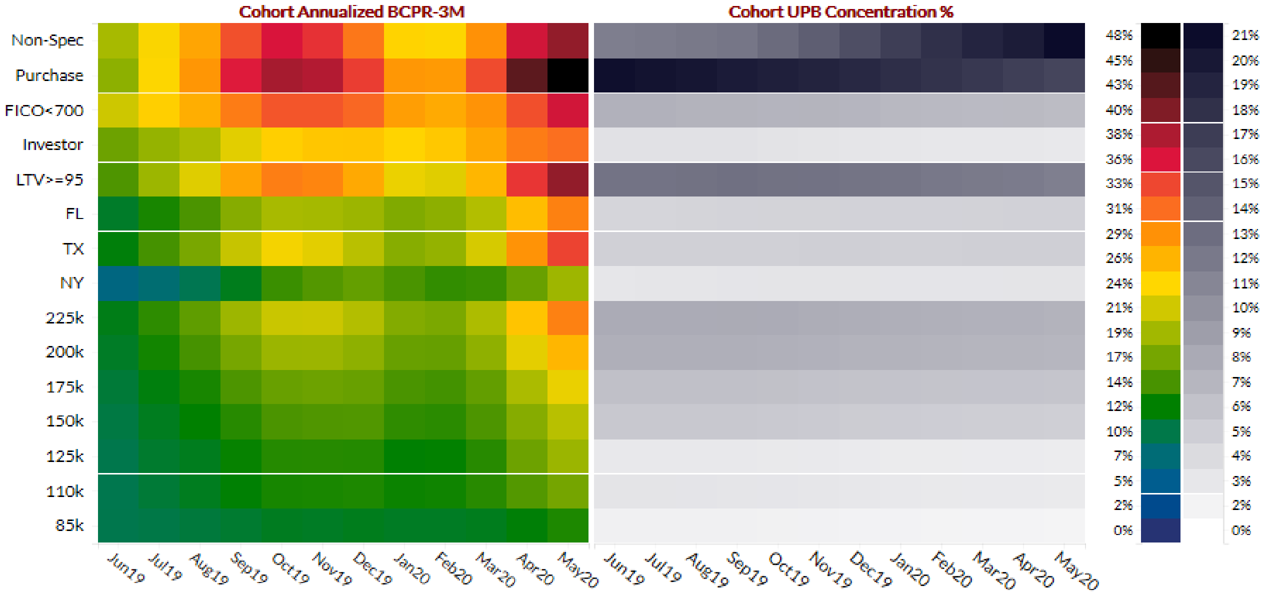
The top ten servicers by UPB paid at 35.4% on the Benchmark CPR3, which covers ~58% of outstanding FN balance, in line with Cohort (35.2% Benchmark CPR3). Within these ten servicers, the note rate adjusted percentage of cohort varied from 77% of cohort to 126% of cohort. It is also notable that some of the servicers that were significantly faster than cohort in prior months are now more in line with cohort. Overall, it appears that the rest of the market is catching up to the lenders that were significantly faster in prior months. Anecdotally, this was in line with the higher levels in the MBA Refi Index in prior months, and with this index dominated by bank lenders, this speaks to the catch-up nature of this month's prints. The top ten sellers made up 53% of the outstanding balance and had a prepay profile very similar to that observed within the top ten servicers.

The composition of the overall Fannie cohort shifted to lower WACs, as the higher coupons were quicker to refinance into lower rates.

Below we preview heatmaps from a new feature under development for the Benchmark CPR dashboard. The heatmaps consist of two panels; the panel on the left shows the Benchmark CPR3 for the Fannie Mae reference population over the last twelve factor months, using a multicolor scale, and the panel on the right shows the outstanding UPB using a gray scale. Each heatmap cohorts the reference population across a chosen metric (e.g., Loan Size).

The first heatmap in **Exhibit B** utilizes a waterfall logic to cohort the population among widely accepted specified collateral stories. This shows that prepays were higher across most specified pool stories, but the differentials between call-protected collateral and non-call protected collateral appear to have reverted to the highs seen in the second half of 2019. While these are interim numbers and are subject to some change, the trend seen in this chart aligns with the pricing recovery observed for call-protected collateral in the last month.

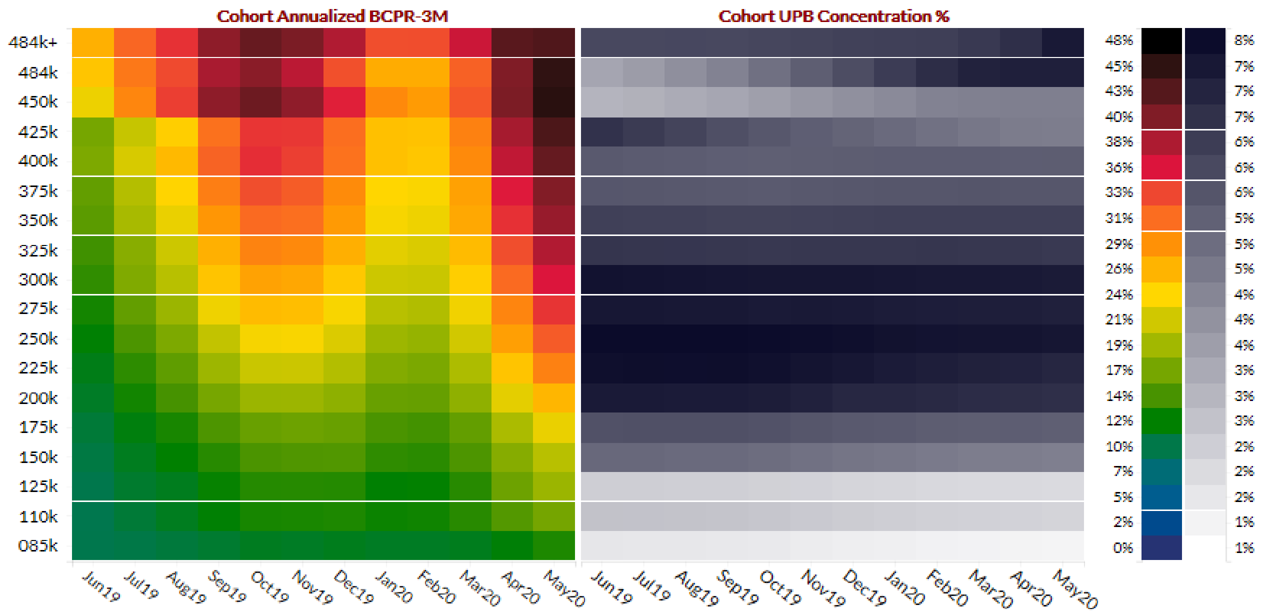
Exhibit B.



Source: Fannie Mae

The next heatmap in **Exhibit C** shows the prepay sensitivity to loan size and how pronounced it has become over the last year as the refinance wave took hold.

Exhibit C.



Source: Fannie Mae

Fannie Mae

Additional Resources

Contact Us

For questions, please contact the Fannie Mae Investor Help Line at 1-800-232-6643, Option 3 or by e-mail.

Resources

Benchmark CPR Dashboard

Benchmark CPR Video Tutorial

Benchmark CPR Methodology Overview

Data Dynamics Webpage

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