



**CRT Tenders Support Investment Rationale, Even amid Murky Tender Schedule**

**Investors should expect CRT tender offers to become regular events in the sector, though their terms and timing would remain somewhat uncertain.**

Both Fannie Mae and Freddie Mac recently completed tenders on seasoned CRT deals. Declining capital relief benefits and rising credit costs as deals age clearly motivate the agencies to tender. But the agencies are likely to remain opportunistic in offering tenders, introducing some uncertainty as CRT investors assess their potential holding periods. Freddie alluded to a quarterly schedule of tender offers, but is not offering more specific guidance similar to its CRT issuance calendar. Fannie has not specifically committed to future tender activity.

Still, with Fannie issuing CAS deals again after a 20-month hiatus, and the credit performance outlook for seasoned mortgages relatively benign, the tender-implied long put option investors receive should support CRT investment rationale. Investors may be able to reallocate funds to fresh CRT bonds, especially if the agencies look to issue new deals around tender offers.

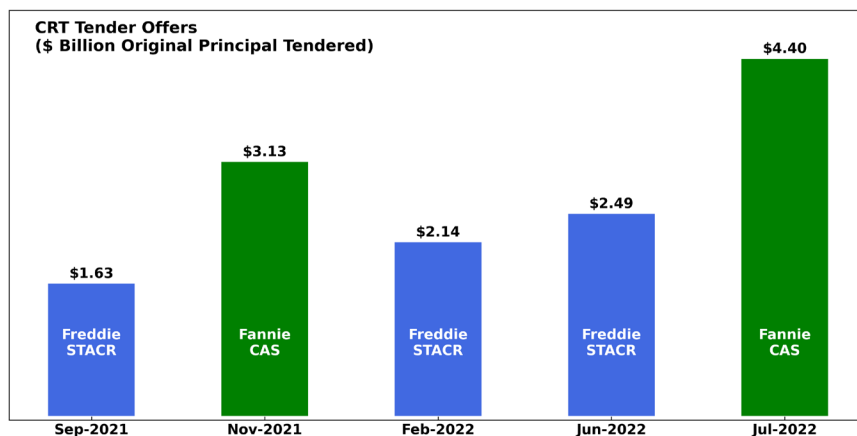
Stav Gaon  
+1 (646) 768-9173  
sgaon@academysecurities.com

Headquarters Address:  
Academy Securities, Inc.  
622 Third Avenue, 12th Fl  
New York, NY 10017

**GSEs Offered Three CRT Tenders YTD**

**Fannie announced the results of its second tender offer earlier this month. This follows the results of Freddie's third tender in June.** Fannie offered its first tender back in November 2021. Freddie had previous tenders in February 2022, and September 2021 (Figure 1).

Figure 1. STACR and CAS Tender Offers

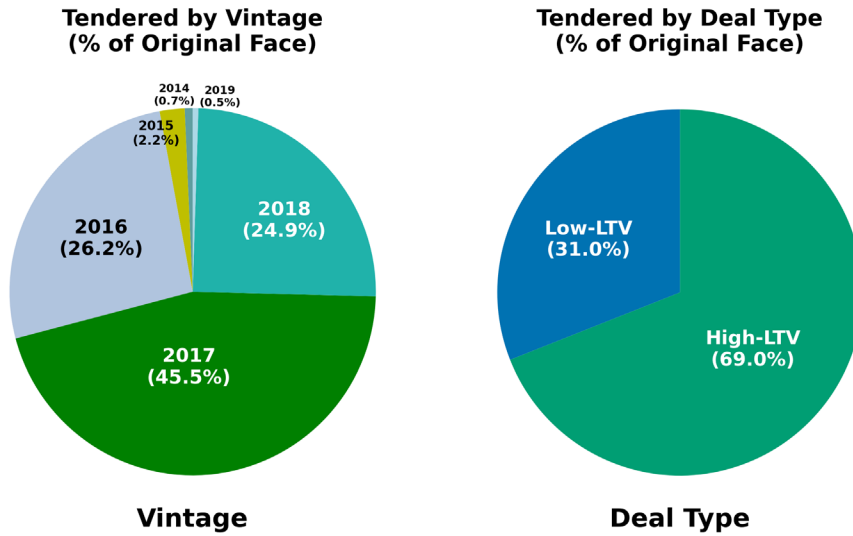


Source: Freddie Mac, Fannie Mae, and Academy Securities

**Tender Offers: Expect More to Come, Though Not on a Predictable Schedule**

The GSEs tenders thus far included 2014- to 2019-vintage deals, both high- and low-LTV deal types. The tenders included M2 and M3 bonds across those deals (Figure 2).

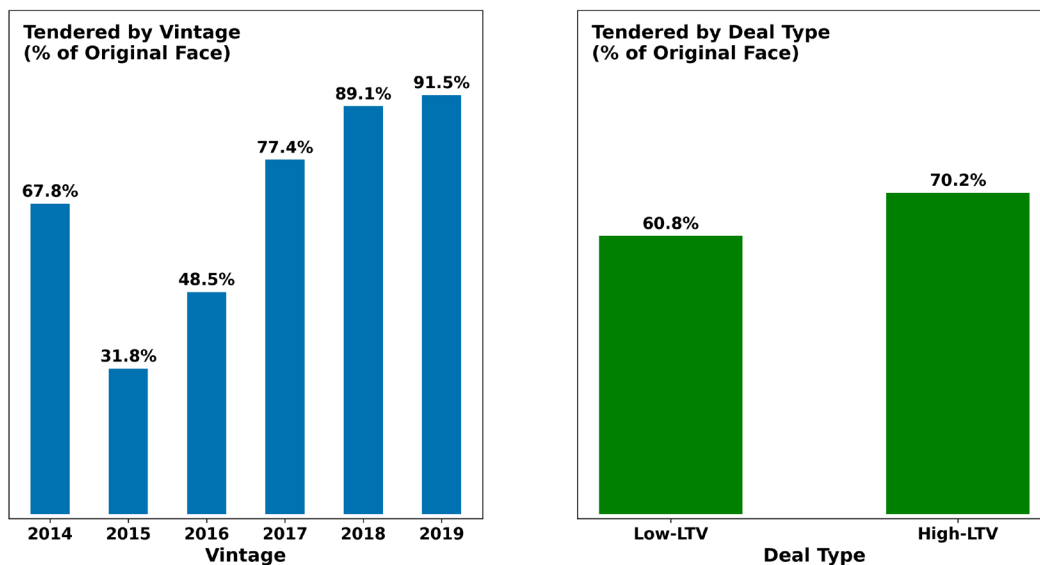
Figure 2. CRT Tender Offers by Vintage and Deal Type



Source: Freddie Mac, Fannie Mae, and Academy Securities

Glancing through the tendered percentage results that the agencies reported, recent 2018- and 2019-vintage deals saw higher tendered rates, on average, compared to more seasoned vintages (Figure 3). In turn, low-LTV deals had higher levels compared to high-LTV deals, on average.

Figure 3. CRT Tendered Percentage by Vintage and Deal Type



Source: Freddie Mac, Fannie Mae, and Academy Securities

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**Interplay of Tenders and Five-year Call Option Yet to Come**

**Going forward both tender offers and call options could impact investors' holding periods and returns.**

Both agencies introduced five-year call options in 2021-vintage deals. These options join the already existing clean up calls on seasoned deals. Freddie exercised a call option on STACR 2014-HQ1 in May 2022. The agency lists five other 2014- and 2015-vintage deals as potentially callable within the next 12 months.

**All else equal, the call options are inferior to a tender offer from investors' perspective, as the issuer holds the option.**

Still, unlike tenders, investors may be better able to evaluate the option costs, and timing of exercise. Similar to tender offers, capital relief benefits and CRT credit costs should drive the agencies decision to exercise their call options. While this means the agencies can choose to call even discount bonds under certain circumstances, they may be more likely to choose to tender such bonds.

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