

Nonagency MBS Information: Extensive but Lacks Uniformity

The nonagency MBS market has become more efficient over the last few years due, in part, to improved remittance reporting and the widespread availability of monthly loan-level information. Nonagency MBS investors and other market participants rely on monthly remittance updates for principal and interest distributions, factors, credit performance, and other information for secondary MBS transactions. Remittance reports in general, however, lack uniformity and, in certain cases, accessibility. In an effort to improve remittance reporting in the nonagency markets (including asset-backed securities), PSA, the bond market trade association, is spearheading an effort to set certain standards regarding content disclosure, and to improve accessibility, timeliness, and uniformity. (For more information on PSA's initiative, see "Remittance Information Reporting and Dissemination for Mortgage-Backed and Asset-Backed Securities: Status, Problems, and Industry Challenges," draft, April 1997.)

**Nonagency MBS
information is more
accessible than HEL
ABSs, but less uniform
than agency MBSs.**

While information for most issuers in the nonagency MBS market is widely available, manually as well as electronically, we agree that some standardization would benefit investors, and likewise improve liquidity for all issuers' MBSs in the nonagency market. In our view, monthly remittance data for agency MBS are delivered efficiently, and uniformly. At the same time, gathering remittance data for certain asset-backed securities (in particular, home-equities) is cumbersome. We view remittance reporting in nonagency MBSs in general as being somewhat better than some asset-backed sectors, yet not as efficient as FHLMC/FNMA MBSs. In this article, we compare and contrast nonagency MBS issuers, servicers, and trustees regarding the availability of remittance reports and loan-level data. In addition, we will suggest minimum content standards for nonagency MBS remittance reports. Ideally, this discussion will assist the PSA in its efforts to standardize remittance reporting, and thereby allow investors to obtain uniform information, regardless of the source.

Because several parties produce remittance reports and no industry standards exist, the reports can vary greatly.

Many organizations produce nonagency MBS remittance reports. Without the existence of specific industry standards, these reports often vary (sometimes widely) in terms of content, presentation, and in some cases accuracy (typically because terminology may not always be applied uniformly). Remittance reports are usually produced by the servicer or trustee involved in the mortgage transaction. In some cases, the servicer may also be the issuer. If the trustee produces the remittance report, much of the information in that report comes from the servicer (highlighting the need for electronic transfer of data, thus eliminating errors from manual entry). In addition, many issuers have used more than one trustee over the last few years.

In an effort to understand the depth and accessibility of monthly remittance data presently available in the nonagency MBS industry, we have constructed a table summarizing reporting activity. Figure 3 lists the nonagency market's biggest issuers in the 1990s along with the servicer and/or trustee those issuers have chosen in the past to service the loans and administer the transaction. The figure also shows whether the remittance reports are currently available via hardcopy or electronically. We also reviewed a sample of reports to ascertain the degree of completeness of their remittance reports.

Most remittance reports are available in hardcopy, but a growing percentage are now available electronically.

For the 12 issuers surveyed (representing over 22 shelf registrations), at least a dozen servicers or trustees are providing remittance data on those issuers' MBSs. As shown in Figure 3, some of those servicers or trustees provide remittance reports manually (hardcopy typically distributed via mail or fax). Others provide electronic access via bulletin board systems (BBSs) or on "the net." Still others, like Norwest Bank, provide this information via hardcopy and electronically, depending on the arrangements made with the MBS issuer. We also measured the content, or degree of completeness, from a sample of recent remittance reports, including newly issued as well as seasoned nonagency MBS transactions. Those reports that we determined to be "above average" typically give the reader satisfactory (in some cases, extensive) detail regarding the following information:

- Certificate principal and interest distributions
- Factors
- Servicer advances
- Fees
- Delinquency and loss detail
- Credit enhancement
- Insurance coverage
- Some collateral information

Our survey shows that some remittance reports contain more information than others.

Figure 3 shows that Norwest Bank, GMAC, Chase, and the Bank of New York rank "above average" in our survey. Meanwhile, we regarded reports from Texas Commerce Bank, Citicorp, GE, First Trust National, and Bankers Trust as "average." State Street Bank and PNC (includes Sears MBS transactions) provided what we thought were "below average" content on their remittance reports.

Figure 3. Survey of Major Nonagency Issuers' Remittance Reports, Jun 97

Issuer	Servicer/Trustee	Delivery Method	Degree of Completeness
Capstead	Texas Commerce Bank	Hard Copy	Average
Citicorp (CMSI)	Citicorp	Electronic and Hard Copy	Average
Countrywide ^a	The Bank of New York	Electronic and Hard Copy	Above Average
GE Capital	GE Capital	Electronic	Average
Morserv ^b	State Street Bank	Hard Copy	Below Average
NASCOR ^c	Chase Mortgage	Electronic and Hard Copy	Above Average
	Norwest Bank	Electronic	Above Average
	First Trust National Association	Hard Copy	Average
RFC ^d	GMAC	Hard Copy	Above Average
RTC	Norwest Bank	Electronic and Hard Copy	Above Average
Ryland ^e	Norwest Bank	Hard Copy	Above Average
Salomon Brothers	Norwest Bank	Electronic and Hard Copy	Above Average
	Bankers Trust	Hard Copy	Average
Sears	State Street Bank	Hard Copy	Below Average
PNC	PNC	Hard Copy	Below Average

^a Includes INMC, RAST. ^b Includes Chase/Chemical Mortgage. ^c Includes Pru Home, SASI, SASCOR. ^d Includes RFMSI, RALI, RASC, GMAC. ^e Includes SMART, Saxon and others.
Source: Salomon Brothers Inc.

**Reports
standardization will
assure uniform
information,
regardless of the
source.**

We agree that investors and other market participants should have access to monthly remittance reports that contain reasonable and consistent disclosure regarding bond-level, pool-level, and administrative details. In hopes of stimulating an industry consensus, we suggest minimum standard reporting requirements in Figure 4. (Please note that some of this information has already been suggested by the PSA in its draft.) Furthermore, the information listed in Figure 4 already exists on certain remittance reports that we surveyed. Nonetheless, investors would benefit from consistent and uniform reporting from all servicers and trustees in the nonagency MBS industry.

Figure 4. Suggested Remittance Report Disclosure

Tranche Specific:

Cusip
Pass-through Rate
Original and Current Certificate Balances
Scheduled Principal Distribution
Unscheduled Principal Distribution
Remaining Principal Balance Factors
Interest Distribution
Accrued Interest
Interest Shortfall
•Payment of Previously unpaid shortfall
•Current shortfall
•Non-support shortfall
•Remaining cumulative unpaid shortfall
Notional Balances

Administration:

Servicer Advances
Reimbursement of Advances
Servicing Fees

Pool Specific:

Delinquency Status (number of loans and percentage of remaining principal balance)
•30 days
•60 days
•90 days
•Bankruptcy
•Foreclosure
•Real Estate Owned
Original and Current Subordination levels
Remaining Insurance Coverage
Collateral Information
•Gross WAC
•WAM
Excess Spread
Over-collateralization status.

Note: For senior and subordinate classes, if applicable.

For some, monthly loan-level updates improve analysis and surveillance of nonagency MBS transactions.

For those market participants who have the ability to process collateral updates, Figure 5 lists those issuers that provide access to monthly loan-level detail. All issuers listed in the figure provide their data to the marketplace either on BBS, tape, or CD-ROM. However, the quality, consistency, and accuracy of the information therein varies, as well. Third-party vendors, however, make it possible to eliminate many of the inconsistencies and difficulties inherent in monthly collateral updates.

Figure 5. Nonagency Issuers Providing Monthly Loan-Level Updates, Jun 97

Capstead
Chase Mortgage
Citicorp Mortgage
Countrywide Funding
FBS
GE Capital
Independent National Mortgage
Morserv
NASCOR
PNC
RFC
Ryland
Salomon Brothers

Source: Salomon Brothers Inc.