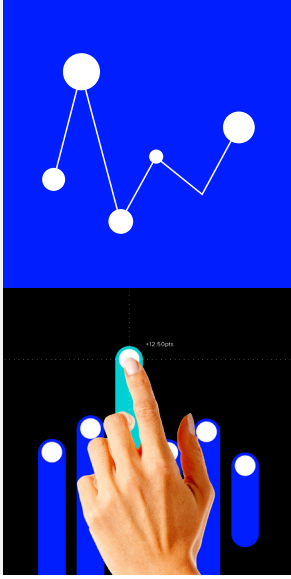
LSEG Yield Book

LSEG Yield Book Non Qualified Mortgage Model



Overview

LSEG Yield Book has a well-established reputation in the US Non-Agency (NAGY) RMBS space and is recognized and trusted by the industry. We currently cover a range of segments within NAGY RMBS including Non-QM, which is a critical subset. With a deal coverage of over 90%, we provide enhanced cashflow projections and analytics for these securities including Price/Yield, OAS, risk metrics, scenario analysis, collateral analysis and actual vs projected CPRs and CDRs. These are available through all of our offerings – Yield Book Classic, Yield Book Add-in and the Analytics API.

We are pleased to announce the addition of Non-QM to our suite of credit and prepayment models. The Non-QM offering is comprised of a set of 3 models fit over extensive borrower loan and property level data – these include the Voluntary Prepayment model, Credit Roll Rate for Delinquencies and Defaults and the Loss Severity model.

Our offering

Comprehensive coverage

We provide extensive cashflow and analytics coverage in the Non-QM space. Please see below for a snapshot of our Non-QM deal coverage by vintage.

Vintage	Deal Count	RPB (MM $'s)	Loan Count (K)	WAC	FICO	CLTV	DTI	% Full Doc	% Investor Property	% ARM
2019	36	$3,248	12.8	6.35	729	68	35	30%	32%	44%
2020	56	$5,465	15.1	5.86	729	69	33	39%	36%	39%
2021	94	$17,071	42.2	5.48	737	70	34	13%	38%	24%
2022	113	$34,081	75.9	5.29	740	71	33	11%	46%	11%
2023	95	$28,332	87.9	7.59	737	71	34	14%	39%	17%
2024	71	$24,996	116	8.39	742	70	35	22%	35%	11%
Overall	473	$113,821	352	6.37	737	70	34	19%	39%	21%

New non-QM model

The Non-QM model is designed with three key components – the Voluntary Prepayment model, the Credit Roll Rate for Delinquencies and Defaults and the Loss Severity model. Each model is fit over a dataset of ~425k Non-QM loans originated after 2016. The models also consider key market indicators as well as regulatory practices within the space.

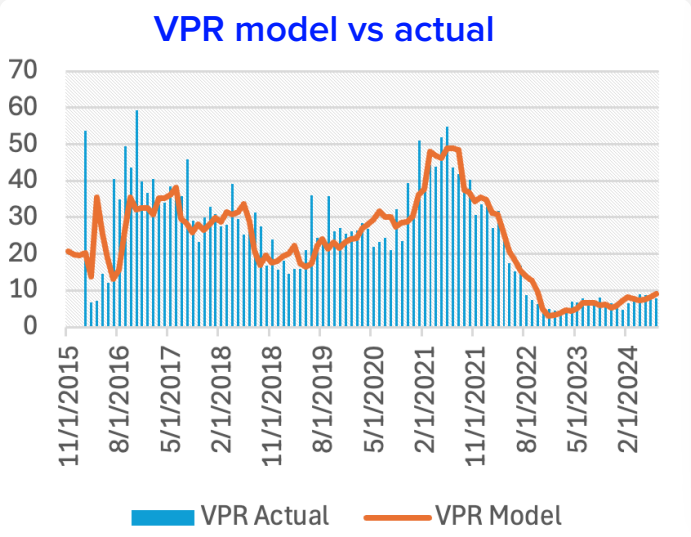
Voluntary prepayment model:

To determine VPRs, the model uses borrower and loan data from trustees, security pricing and loan level data vendors. It incorporates collateral indicative data such as loan purpose, occupancy, PMI coverage fraction, SATO, Credit Score, LTV, DTI, loan size and geography and economic drivers such as primary and secondary mortgage rates, HPA, unemployment etc. A simulated environment is used to compute complex analytics such as OAS.

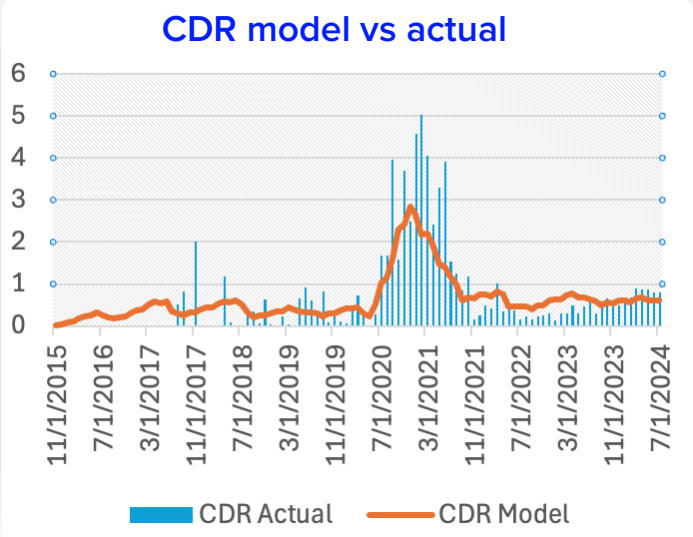
Credit-roll rate model:

To predict delinquencies and CDRs, a roll-rate model methodology has been utilized. This method has been highly popular since the mid-2000s for projecting legacy sub-prime, Alt-A and jumbo mortgage delinquencies and defaults and we have built upon the framework for Non-QM deals. The framework allows for a trade-off between flexibility of formulation and computational complexity while the transition-of-state approach allows for a blend of prior payment trends of exact collateral with key loan indicatives such as loan age, current LTV, DTI, FICO, SATO and Non-QM specific features such as DSCR, time since last bank statement as well as economic drivers such as seasonality unemployment and HPA.

Please see a comparison on VPR and CDR results:



Source: LSEG Yield Book.



Source: LSEG Yield Book.

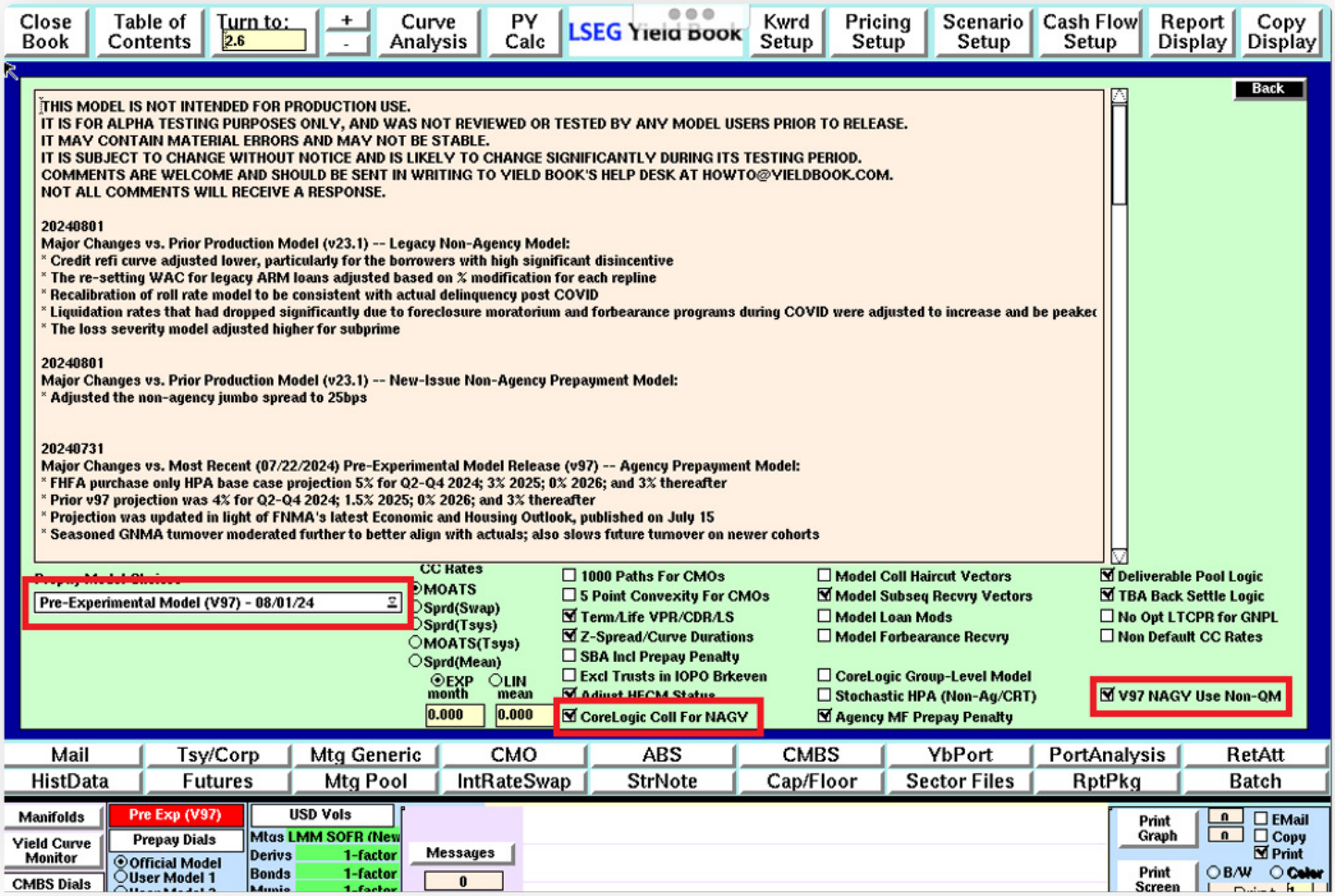
Loss severity model:

To predict loss given default, we utilize a blended approach where we combine three possible liquidation statuses: Short-sale, Foreclosure sale and REO after predicting the likelihood of each as function of indicatives and economic drivers.

Model integration with existing analytics

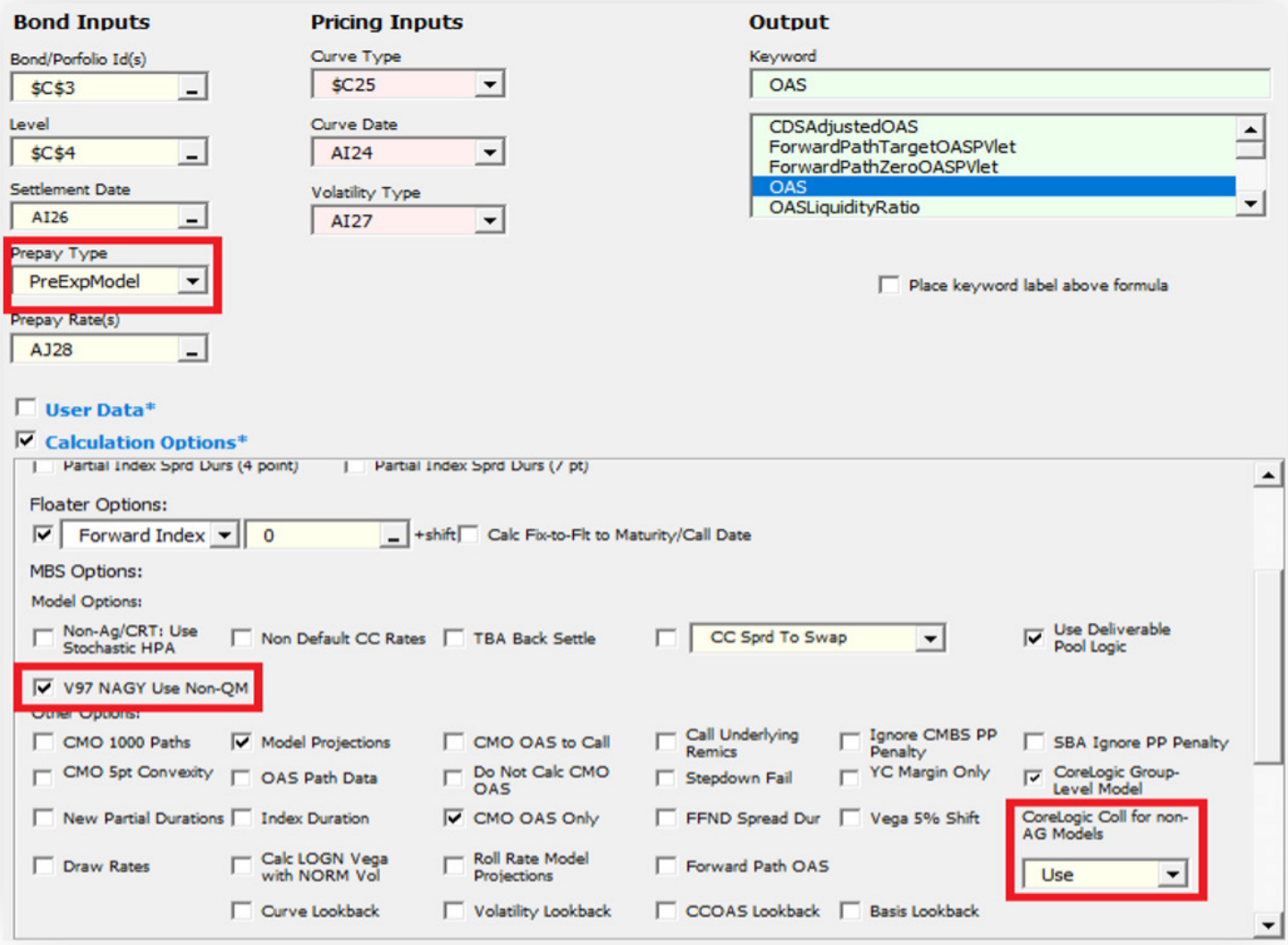
The outputs of the models are monthly VPR (annualized monthly voluntary prepayment rate), CDR (annualized monthly involuntary prepayment rate) and a final loss projection which are consumed by the Yield Book cash flow engine to generate security cash flows as well as analytical results for Non-QM bonds. We have closely mimicked the existing workflow for other Non-Agency RMBS models such as the Alt-A and Sub-Prime/Prime/Jumbo Prime for seamless model integration.

In Yield Book Classic, the user can select the Non-QM model by going to screen below and selecting 'Pre-Experimental Model (V97)' from the drop-down as well as checking the boxes highlighted below:



Source: LSEG Yield Book. For illustrative purposes only.

In Yield Book Add-in, the user can achieve the same by selecting the 'PreExpModel' from the drop-down as well as checking/selecting the boxes highlighted below:



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