

The speculation over a one-page insta-refinance has taken on a life of its own. For a second straight day yesterday, mortgage investors across the world went into a state of freakification running reports on exposure if premium bonds were to gap down four full points (to begin with) in a trading second and selling billions just in case. On the flip side, current coupon bonds are continuing to be well bid today and rates are some of the lowest ever.

What I find most amazing is the unified push by both the sell and buy side to discredit it for one reason or another mostly using stale arguments that the Admin, Treasury or Fed didn't care about any of the other times they rolled out stimuli. After reading what seems like 100 different reports on this over the past few days, consensus from all sides is squarely in the camp that Harley has taken up the crack pipe. But where there is smoke there is usually something on fire and it may not be Harley's pipe.

Below are the most common arguments against the auto-refi program, all of which I am not sure are a huge barrier considering over the period of 10-years this is a \$500bb direct consumer injection and with this program, the Administration can directly aid the middle-class torch and pitchfork holders right before the mid-terms.

-It Won't Happen - It's a Moral Hazard!!!

The MBS buy-side is citing **Moral Hazard** as a primary reason this program won't happen -- 'the rich borrowers who can make their payments on time should not get a bailout.' If it wasn't such a desperate attempt at justification, it would be hilarious.

Remember, **the borrowers sought out for this program are the ones carrying the torches and pitchforks right now.** To date, only the crappy, high-leverage, risk-taker borrowers have gotten all the goodies. The worse of a borrower you are and the more over-levered the more you get. I see this program as just the **opposite of moral hazard**...a way of squaring it up. **And it's a great way for the Obama Administration to reach the middle class just in time for the November mid-terms.**

Furthermore, such a huge effort was put forth by the Fed to bring rates down through QE but neg-equity and the GSE's Loan-Level Pricing Adjusters (LLPA), which can take a 4.5% rate and turn it into a 6% rate for less-than-perfect borrowers, have circumvented a certain percentage of the Fed's work. **This is a way to make the Fed's massive investment yield additional dividends long after QE 1.0 has ended.**

-HAMP Didn't Work and Neither Will This! Who Will Pay for the Transaction Cost!?!

The sell side states that HAMP was a bust so this will be too. But HAMP and this new program are not remotely similar and neither are the target population. The new program is an anti-HAMP, therefore, HAMP data don't tell us much.

Those with the *hardship* necessary for a HAMP mod are not the same group as those who would be targeted for new refi program. HAMP borrowers must have a real income and/or asset ***hardship*** and most are delinquent, in default, or at foreclosure's doorstep at the time first contact for help is made. The ***hardship*** required for a HAMP mod does not even include negative-equity as a stand alone qualifier. Further, if your front-end DTI is below 31% you don't qualify for a HAMP mod at all.

The new program is only for current GSE or FHA borrowers with a great history of repaying their mortgage whose only *hardship* is being underwater or having a less-than-perfect credit score (i.e. perhaps slightly under 700), which requires large LLPA's taking away much of the benefit of lower base rates. This is the exact opposite of HAMP.

The only way these people can benefit from present-day low rates is to pay thousands of dollars in discount points to buy down their rate. A current borrower having to spend thousands to buy down rates to current market when if they were only in default they would get it for free through a mod is simply unfair. **In fact, this is the real moral hazard** -- one that will instigate premeditated loan defaults.

Again, this program does a great job in reaching the middle-class...the ones that have not received much love from all the stimulus, who are carrying the torches and pitchforks, and considering premeditated loan default because they feel abandoned. With this new program offering these borrowers a free or low cost refi with rates 100bps+ lower, those manageably levered borrowers with a negative-equity ratio consistent with premeditated loan defaults, would be much less likely to walk away in the future.

With respect to transaction costs, if they only focused on the crème of the crop with a simple streamline program it would be much cheaper than a fully documented, three month approval modification, HAFA short sale or deed-in-lieu, for which the Treasury is current paying servicers and borrowers thousands of dollars per transaction. This refi could be done for a fraction of the cost.

-Too Much Money Will be Lost by MBS Investors!!!

Everyone said the same when the GSE's announced the sudden \$200bb buyback of hundreds of billions in premium coupons earlier this year. Some lost a lot of money or at least a lot of leveraged profits. Some made a lot when current coupons rallied on the news, as they have over the past few days.

But by virtue of the GSE's surprising the premium MBS coupon clipper speculators in the manner they did in the buyback, it is obvious there is no love loss there. Point being, they want the market buying the current, lower-rate coupons not chasing bubbled-up, 10 over par, premium coupons in which all the borrowers are stuck unless they get out through mod, foreclosure or short sale.

-But No!!! Interest Rates Will Soar Sealing the Fate of the Housing Market!

Are you kidding me. Maybe 75bps worse case...but **we all know that low interest rates are not as meaningful to real estate as they used to be or we would not be talking about an auto-refi program in the first place with rates sitting at historic lows.** Rates going from 4.25% to 5% (lower than their past 18-month average) means little to the refi or macro housing market at this stage...not compared to the benefits of millions rolling monthly payments down 20% and saving \$500bb over the next decade.

To the purchase market the most important thing is a tax-credit that can be monetized and used for the down payment like the one that just ended. Without this, many first-timers who made up as much as 50% of existing home sales recently, would not have been able to buy.

-Premium MBS Hit Three Days in a Row

For two days in a row current coupons have sharply outperformed premium bonds, as investors lightening the speculation load and buy at the front end. Perhaps, this is mission accomplished in and of itself.

1) 7-28 FNMA Coupon Stack - Premium coupons off sharply relative to current

TW Tradeweb FNMA 30 Year TBA MBS (COMPTBAFNMA303)													
Main		Lists		Blot		Book		Msg		Pmon		Pref Admin	
1 Sec		One Sec		TW Tradeweb FNMA									
Favorites Tradeweb FNMA 30 Year TBA MBS													
Symbol	Coupon	Month	102-02+/05+	Chg	Dir	Coupon	Month						
FNMA303	3.5-6.0												
GNMA303	4.000	Aug	102-02+/05+	+0-01+	1- 1	5.500	Aug						
USRATES	4.000	Sep	101-20+/23+	+0-01+		5.500	Sep						
30SWAP	4.000	Oct	101-09 /11	+0-02+		5.500	Oct						
GNFN 5.0	4.000	Aug/Sep	136/ 137		1- 2	5.500	Aug/Sep						
US	4.000	Sep/Oct	122/ 123		1- 2	5.500	Sep/Oct						
MBS	4.500	Aug	104-08+/09	+0-01+	2- 1	6.000	Aug						
TRSY	4.500	Sep	103-28+/30	+0-01		6.000	Sep						
AGCY	4.500	Oct	103-18 /19	+0-01		6.000	Oct						
IRS	4.500	Aug/Sep	11+/ 115		2- 2	6.000	Aug/Sep						
CORP	4.500	Sep/Oct	102/ 10+		2- 2	6.000	Sep/Oct						
CDS	5.000	Aug	106-10+/12	-0-01	1- 3	6.500	Aug						
CONV	5.000	Sep	105-21+/00+	-0-09		6.500	Sep						
CP	5.000	Oct	105-12 /23	-0-09		6.500	Oct						
ADN	5.000	Aug/Sep	113/ 11+		2- 2	6.500	Aug/Sep						
REPO	5.000	Sep/Oct	092/ 10		2- 2	6.500	Sep/Oct						
Europe	TRSY	2 yr	100-01 /012	+0-002	0.609-605	Roll Analysis		FN					
Canada	IRS	3 yr	100-066/07	+0-012	0.928-925	Cpn	Cpr	Drp					
CAN GVT		5 yr	100-04+/046	+0-043	1.721-719	4.0	16.8	0-136					
PROV		7 yr	100-20+/21	+0-01	2.399-396	4.5	25.6	0-11+					
CAMM		10 yr	104-06+/07	-0-01+	3.001-999	5.0	34.7	0-113					
Asia		30 yr	104-26 /27	-0-12	4.094-092								
STP	Main	30	15	Rolls	FN30	FN15	PC30	PC15	GN30	GN15	Sw30	Sw15	Basis

7-29 Premium coupons put up even worse relative performance the second day

TW Tradeweb FNMA 30 Year TBA MBS (COMPTBAFNMA303)															
Main		Lists		Blot		Book		Msg		Pmon		Pref		Admin	
1Sec		GNMA II 30Yr 4.500 Oct				131									
Favorites Tradeweb FNMA 30 Year TBA MBS															
FNMA303	3.5-6.0		4.0-5.5		Chg-4:45pm		Dir		Coupon		Month				
GNMA303	4.000	Aug	102-09	/09+	+0-08	1-2	5.500	Aug							
USRATES	4.000	Sep	101-27	/28	+0-08		5.500	Sep							
30SWAP	4.000	Oct	101-15	/16+	+0-08+		5.500	Oct							
GNFN 5.0	4.000	Aug/Sep	137/	14		2-2	5.500	Aug/Sep							
US	4.000	Sep/Oct	121/	122		2-2	5.500	Sep/Oct							
MBS	4.500	Aug	104-13+	/14	+0-06+	2-1	6.000	Aug							
TRSY	4.500	Sep	104-02	/03	+0-06+		6.000	Sep							
AGCY	4.500	Oct	103-24	/25	+0-07		6.000	Oct							
IRS	4.500	Aug/Sep	113/	11+		2-1	6.000	Aug/Sep							
CORP	4.500	Sep/Oct	102/	103		1-2	6.000	Sep/Oct							
CDS	5.000	Aug	106-16	/16+	+0-04+	2-1	6.500	Aug							
CONV	5.000	Sep	106-05	/08+	+0-06+		6.500	Sep							
CP	5.000	Oct	105-26+	/27+	+0-05+		6.500	Oct							
ADN	5.000	Aug/Sep	113/	11+		2-2	6.500	Aug/Sep							
REPO	5.000	Sep/Oct	10	/	101	2-2	6.500	Sep/Oct							
Europe	TRSY	2 yr	100-022/02+	+0-01+	0.590-586		Roll Analysis		FN						
Canada	IRS	3 yr	100-106/11	+0-052	0.885-882		Cpn	Cpr	Drp						
CAN GVT		5 yr	100-116/12	+0-115	1.673-672		4.0	16.8	0-137						
PROV		7 yr	100-282/29	+0-086	2.361-357		4.5	25.6	0-113						
CAMM		10 yr	104-10+/11	+0-02+	2.987-985		5.0	34.7	0-113						
		30 yr	105-05+/06+	-0-00+	4.073-072										
Asia	Main	30	15	Rolls	FN15	PC30	PC15	GN30	GN11	Sw30	Sw15	Basis			
STP															

7-30 - Premium bonds continue under pressure for a third day while current coupons catch the bid.

TW Tradeweb FNMA 30 Year TBA MBS (COMPTBAFNMA303)																									
		Main		Lists		Blot		Book		Msg		Pmon		Pref		Admin									
		1 Sec		One Sec																					
Favorites										Tradeweb FNMA 30 Year TBA MBS															
FNMA303		3.5-6.0		4.0-5.5		Chg-4:45pm		Dir		Coupon		Month													
GNMA303		4.000 Aug		102-14+/15+		+0-05		1- 2		5.500		Aug													
USRATES		4.000 Sep		102-00+/01+		+0-05				5.500		Sep													
30SWAP		4.000 Oct		101-20 /21+		+0-04+				5.500		Oct													
GNFN 5.0		4.000 Aug/Sep		136/ 137				1- 2		5.500		Aug/Sep													
US		4.000 Sep/Oct		121/ 122				1- 1		5.500		Sep/Oct													
MBS		4.500 Aug		104-17+/18		+0-03+		1- 3		6.000		Aug													
TRSY		4.500 Sep		104-06 /07+		+0-03+				6.000		Sep													
AGCY		4.500 Oct		103-27+/28+		+0-03+				6.000		Oct													
IRS		4.500 Aug/Sep		112/ 113				1- 2		6.000		Aug/Sep													
CORP		4.500 Sep/Oct		101/ 102				2- 2		6.000		Sep/Oct													
CDS		5.000 Aug		106-18 /18+		+0-01+		1- 1		6.500		Aug													
CONV		5.000 Sep		106-06+/08		+0-01+				6.500		Sep													
CP		5.000 Oct		105-28+/30		+0-01+				6.500		Oct													
ADN		5.000 Aug/Sep		11 / 111				2- 2		6.500		Aug/Sep													
REPO		5.000 Sep/Oct		097/ 101				1- 2		6.500		Sep/Oct													
Europe		TRSY 2 yr		100-042/04+		+0-016		0.558-554		Roll Analysis		FN													
Canada		IRS 3 yr		100-156/16		+0-046		0.831-828		Cpn		Cpr		Drp											
CAN GVT		5 yr		100-22+/226		+0-102		1.603-601		4.0		16.8		0-136											
PROV		7 yr		100-13+/14		+0-137		2.309-307		4.5		25.6		0-112											
CAMM		30 yr		106-17 /18+		+1-14		3.998-995		5.0		34.7		0-110											
Asia		Main		30		15		Rolls		FN15		PC30		PC15		GN30		GN15		Sw30		Sw15		Basis	
STP																									

Best Regards,

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