



GSE Activity Report

Wednesday, November 18, 2020

A Cloaked CRT Critique

In its [2020 systemic-risk assessment](#), the Office of Financial Research takes unusual issue with GSE CRT transactions. As is well known, the report observes that CRT spreads widened and distress pricing was evident when COVID hit, with the Fed's unwillingness to purchase CRT in addition to agency MBS said to exacerbate market stress. We see no way the Fed will ever hold CRT; as we [noted](#) on Monday, it's already a matter of internal debate at the Fed as to whether to continue agency MBS purchases. OFR also observes that pricing has rebounded as judged by outstanding paper and Freddie's limited offerings, but forbearance and rising delinquencies pose risks as conditions normalize. The report notes FHFA's proposed, tough [capital treatment for CRT](#), but makes no judgment as to whether it is appropriate in light of the report's risk projections and the GSEs' own CRT positions.

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