

Securitization in Focus

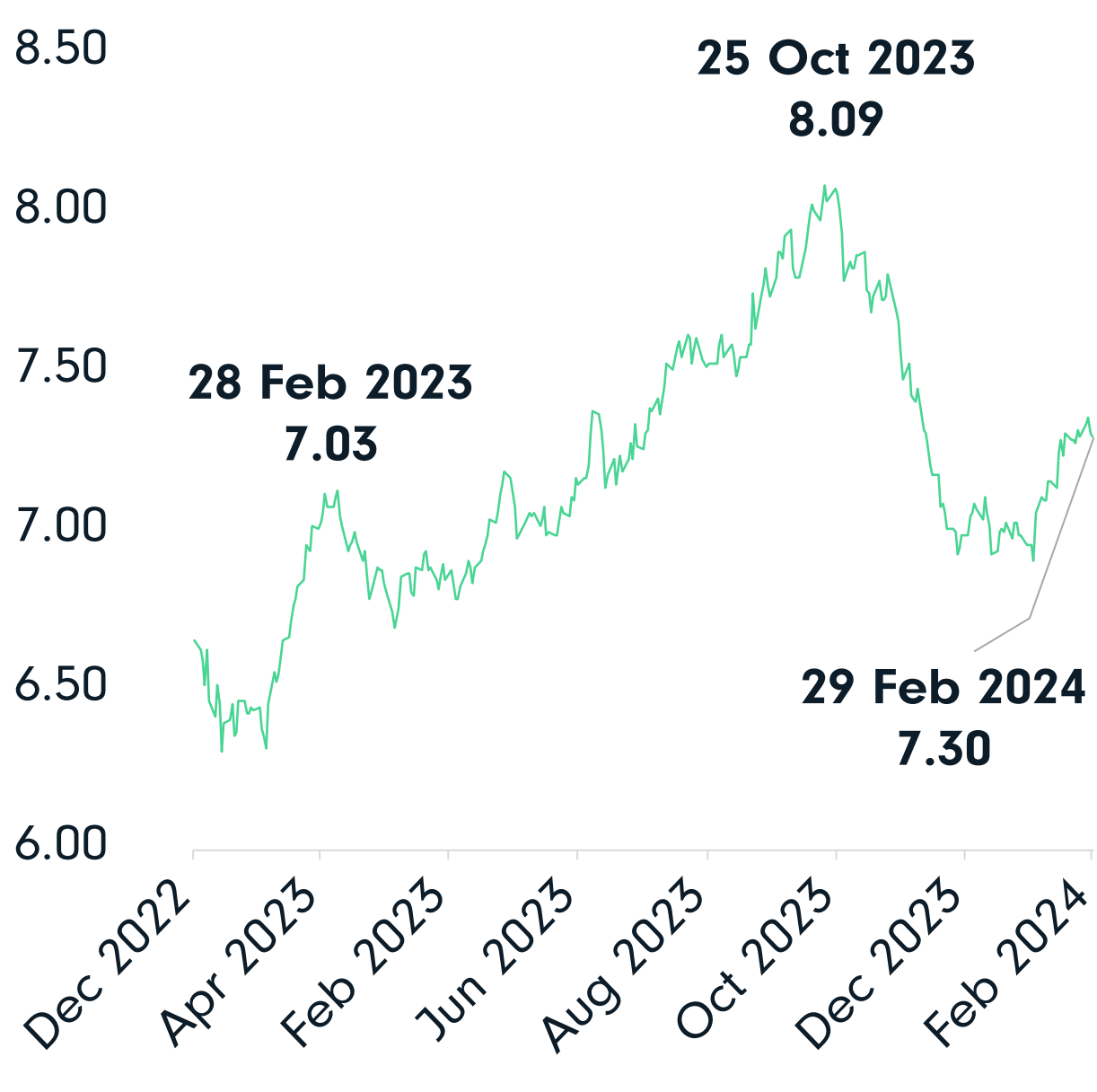
February 2024

Residential Mortgage-Backed Securities (RMBS)

30-year fixed mortgage rates are up roughly 0.3% from the beginning of the year but well below the most recent high and only slightly higher than a year ago.

While most borrowers are locked in at much lower rates, there is some potential for a pickup in refinancing in more recent vintages.

Bankrate.com US Home Mortgage 30Y Fixed National Average (%)



\$16.9B

Non-agency residential MBS issuance YTD

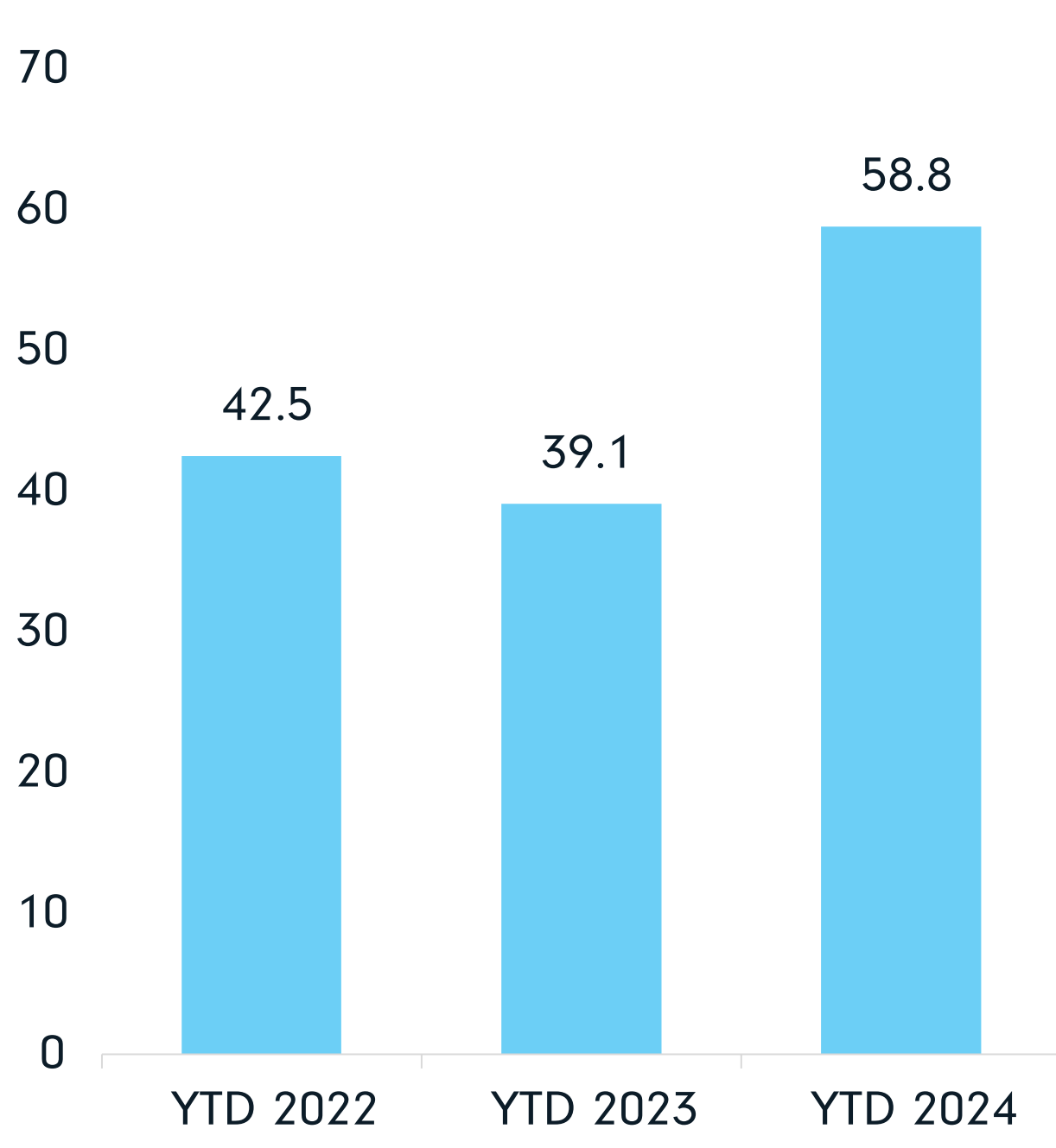
Roughly 31% ahead of the same period in 2023.

Asset-Backed Securities (ABS)

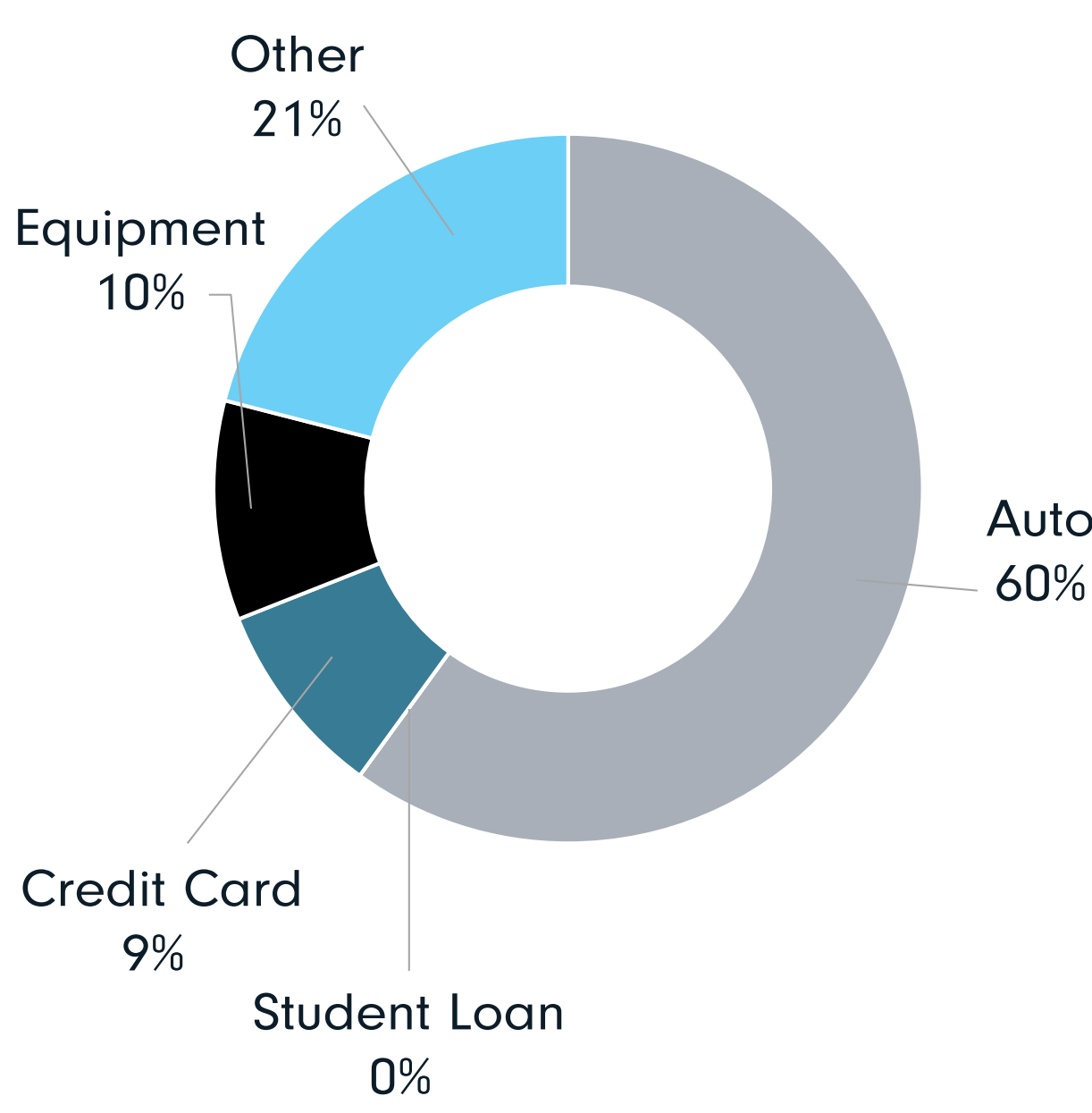
Issuance

Year-to-date ABS issuance is up 50% over the same period last year (through February). Autos made up the majority of that issuance (\$35 billion), increasing 24% vs a year ago.

Issuance YTD (\$B)



Issuance 2024 YTD Breakdown (%)



Delinquencies (%)

60+ Day Delinquencies (%)

	Feb	MoM	Default Rate (MoM)
Prime Auto	0.48	0.02	1.12 (up 15 bps)
Subprime Auto	5.37	0.24	11.67 (up 78 bps)
Consumer Marketplace Lending	2.56	-0.05	13.98 (up 55 bps)
Consumer Loan	4.47	0.34	9.14 (down 33 bps)

Commercial Mortgage-Backed Securities (CMBS)

Special Servicing

Servicing of commercial mortgage loans involves greater discretion than servicing other types of loans. A servicer must use judgment to maximize the recovery value of the property. Special servicers foreclose, re-structure or work out loans that become delinquent or suffer other adverse events.

YoY and MoM Trends in Special Servicing (%)

	Conduit	SASB ¹	CRE CLO ²
Feb 2024	6.6	6.9	3.0
Jan 2024	6.5	6.8	3.3
Feb 2023	5.3	4.2	0.9
MoM Change	0.1	0.1	-0.3
YoY Change	1.3	2.7	2.1
Trend	↑	↑	↔

¹SASB – Single Asset Single Borrower. ²CRE CLO – Commercial Real Estate Collateralized Loan Obligation. Note: An “up” arrow indicates that the YoY and MoM changes are positive, a “down” arrow indicates that the YoY and MoM changes are negative, and a “sideways” arrow indicates that the YoY and MoM changes are in opposite directions.

SECTOR HIGHLIGHT

Commercial Real Estate Collateralized Loan Obligations (CRE CLOs)

These deals are collateralized with bridge loans that are secured by transitional properties going through repositioning or redevelopment to generate additional revenue. The collateral can include but is not limited to multifamily, office, retail, lodging and industrial.

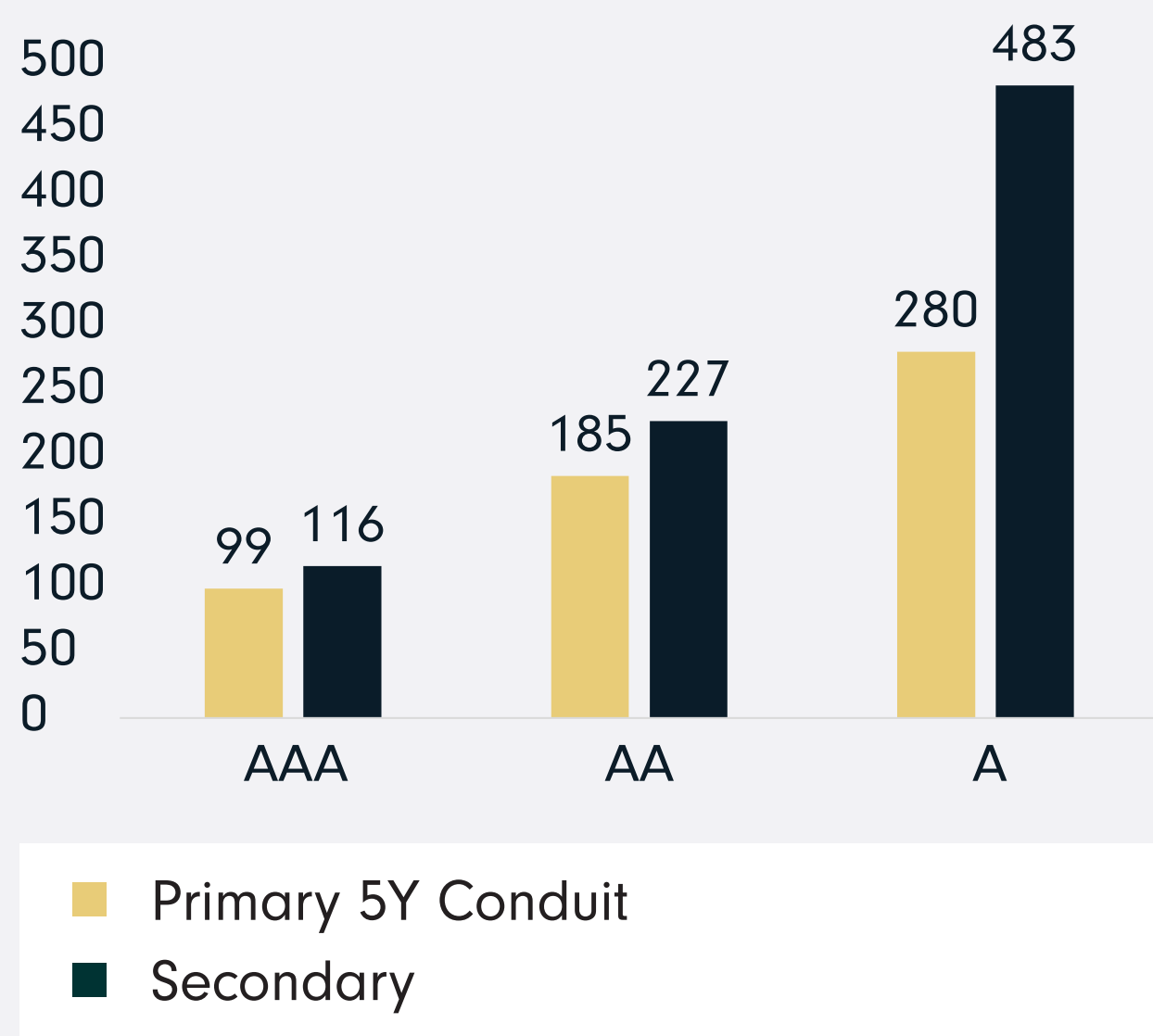
These deals traditionally contain ten or more commercial real estate loans that are generally floating rate. Unlike conduits and SASB, which follow a more standard procedure, CRE CLOs can be customized and therefore a bit more complex.

These investments differ greatly from the more standard collateralized loan obligations, which are a form of securitization that holds a variety of middle- and large-sized corporate loans.

New Issue vs. Secondary Spreads

Secondary bonds have higher office exposure, extension/loan modification risks and downgrade risks. They are also more challenging to analyze. As such, we’re seeing a decent divergence between primary and secondary spreads.

Spreads (bps)



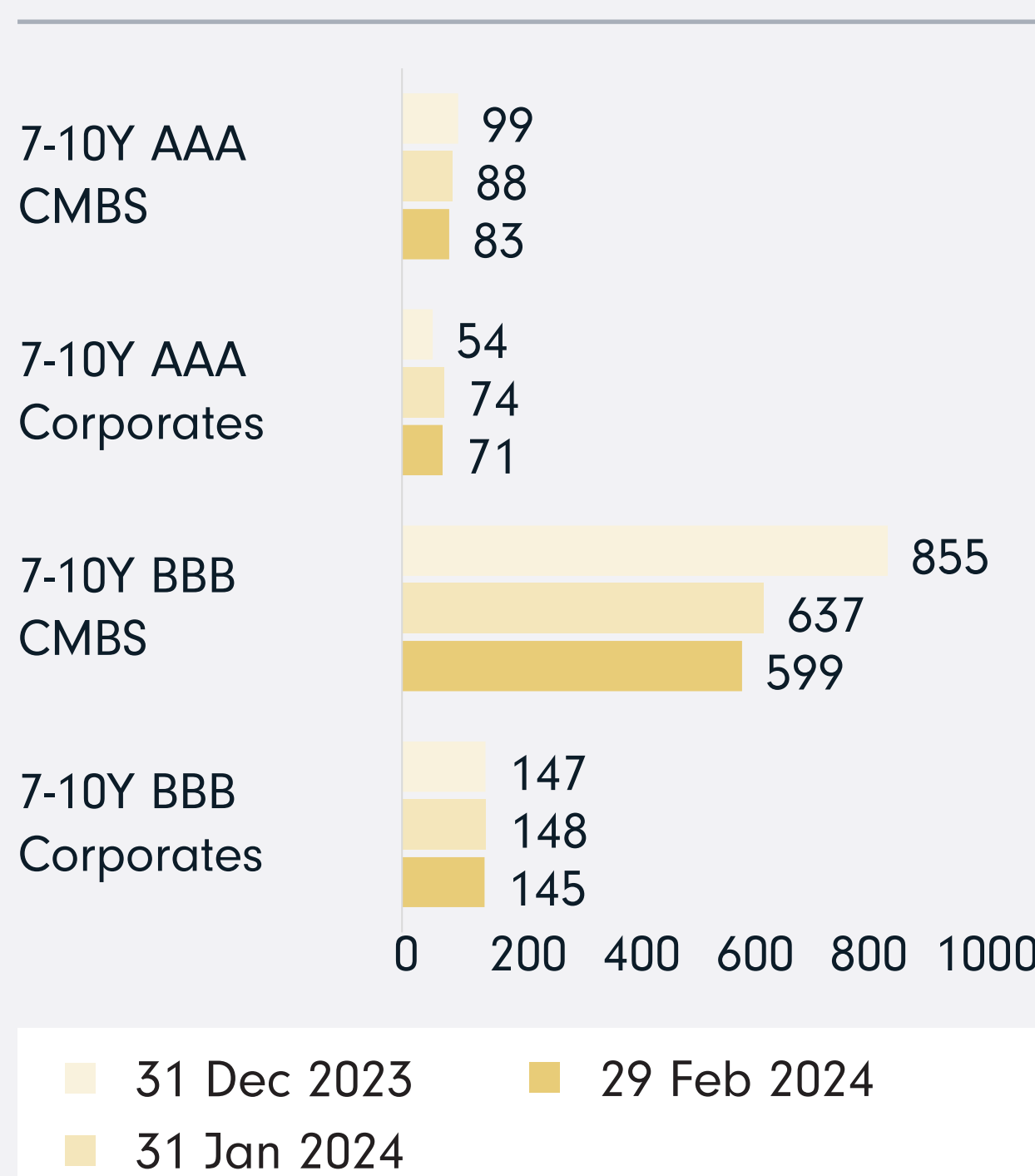
Spread Rally in Non-Agency CMBS

Despite no material change in fundamentals, non-agency CMBS continue to rally and outperform investment-grade corporate debt.

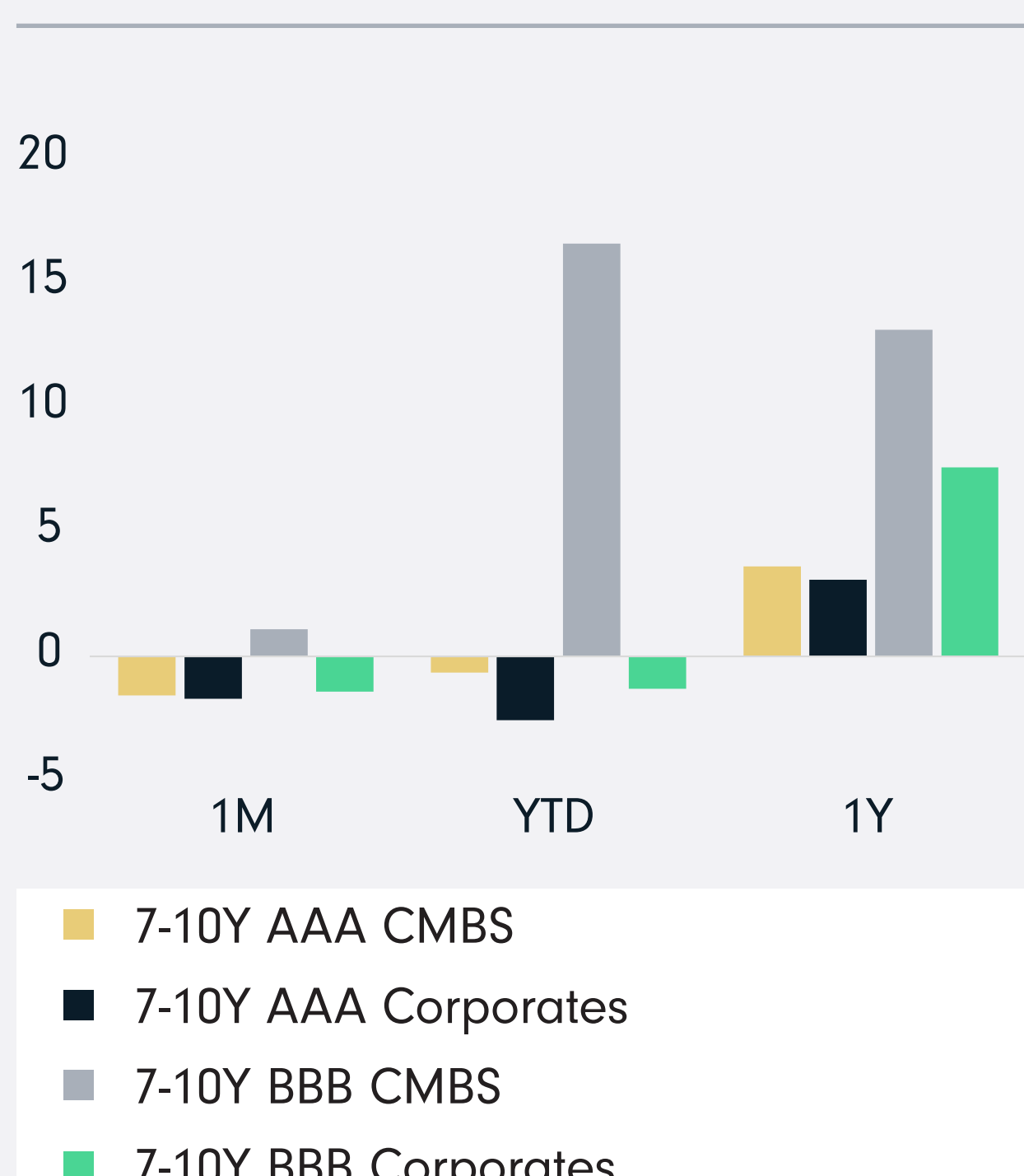
Duration as of 29 Feb 2024

	7-10Y AAA	7-10Y AAA Corporate	7-10Y BBB CMBS	7-10Y BBB Corporate
Duration	6.82	7.30	6.42	6.67

Option-Adjusted Spread⁵ (bps)



Total Return as of 29 Feb 2024 (%)



Sources: Deutsche Bank, Barclays, ICE BofA Indexes, Bankrate.com.

Investment Grade is a bond quality rating of AAA, AA, A or BBB.

⁵Option-Adjusted Spread: Option-Adjusted Spread is the difference between the portfolio yield and the risk-free rate, accounting for embedded options.

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