Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

CRTcast Episode 5 – Syndication's Role in New Issue

Announcer [00:00:01] Welcome to the Freddie Mac Single-Family CRT cast, a series under the Home. Start Here podcast. Now, investors have a front row seat to conversations discussing economic and housing markets, portfolio management and analytics, servicing policy, and credit risk management from Freddie Mac leaders and other industry experts.

Mike Reynolds [00:00:28] Hello. Welcome to Freddie Mac's CRT casts. I'm your host, Mike Reynolds, and I'm very happy with our first CRT cast of Twenty Two to have as a guest today, Christy Santo, who is the head of asset backed syndicate at Wells Fargo. Christy, welcome. We're glad you're here.

Christy Tintle [00:00:55] Yeah, thanks so much for having me.

Mike Reynolds [00:00:58] So Christy, head of Asset Backed Finance Syndicate at Wells Fargo, for us in the CRT space where our capital markets execution. When we raise funds, it's really all through the syndicate process. It's the primary print. But can you tell us a little bit? What does it mean? What does syndicate mean and what does that mean to be the head of the syndicate death for asset backed finance?

Christy Tintle [00:01:34] Sure, happy to. So in short, I run a team that manages the process of bringing various transactions to market through the primary market is, as you mentioned, that has been historically, and as of last year, somewhere between call it 250 and 300 transactions. And that spans not just non-agency RMBS, which obviously CRT would fall under, but also CLO's, CMBS, as well as ABS. So last year, that was right around two hundred and sixty five plus billion in volume. Effectively, we work with issuers like yourself to strategize around how to bring how and when to bring transactions to market, how that transaction should price and then in working in close collaboration with the issuer, approach the market through our sales force to engage investors who would like to participate in that transaction. Your transactions can vary in size. They can be as small as call it 200 million, or they could be close to two billion, like the transaction that you all just priced. And depending on the nature of the trade, the rating, the duration, it's fixed or floating the investor base, the composition of that investor base can vary dramatically in different markets. It can vary dramatically. But effectively we go out and canvass investors to understand who would like to participate, try to solve for what the right pricing level is as part of that process, and then ultimately price the transaction and settle those bonds with investors. So effectively, that's what we would call running a syndicate.

Mike Reynolds [00:03:20] That's a very broad participation. Your field of work is very broad. That's what I'm trying to say I mean 250 to 300 transactions across multiple asset classes. CLO's, ABS, GSC, CRT. Clearly you need to have your pulse on multiple markets. Can you talk at all about that? Just how does that all come together?

Christy Tintle [00:03:55] Yeah, absolutely. We're set up in some ways similar but in other ways different than some of the other our peers on the street. Some may, for example, have a dedicated CLO syndicate role, and we have more of a generalist model whereby all of the transactions are marketed off of the same desk. And we think that makes sense because particularly in challenging markets like this, it's very interesting to understand which investors are participating and which asset classes and where they see relative value. And that's true not only across structured but working in conjunction with our investment grade syndicate to understand what investors are active in that space and what the dynamic in their market is. So it's definitely wide reaching. We have subject matter experts in our banking team that we obviously work in close collaboration with. We also work very closely with our trading desk, especially for the purposes of CRT, which is a very large liquid market and where bonds are trading in secondary, very much informs how we position bonds when it comes time to bring a new issue transaction. So while we manage the process, there's a lot of other parties internally at wells and obviously working again in close partnership with our issuers that help sort of drive, drive the process and whose expertise we tap to make sure that we're thinking about how to market the transaction in the best and most appropriate way. Again, given to your point, we're talking about a lot of different types of transactions across spanning different asset classes.

Mike Reynolds [00:05:36] Well, I'm really impressed. I think I think the job of the head of a syndicate desk is very challenging. You personally, the shop that you run, we consider Wells Fargo for a CRT space to be one of our top desks. So it's a challenging job. We think you do a fantastic job at it. Like you said, that broad view, you know we're very focused on what's happening at the GSC and CRT, and we can dig into them and a couple of minutes. But I think the value you and your team are bringing of that broader view is tremendous. Many of our investors are participating in across multiple asset classes. They are looking for that relative value. As of today, we happened to be recording today, which is the date of the Fed meeting. So what are you seeing? What's what some of the color that you're seeing across the sectors?

Christy Tintle [00:06:40] So it's been an eventful few weeks leading up to the Fed. I think candidly happy to have one aspect of uncertainty behind us as it relates to the Fed. Certainly plenty of uncertainty out there that I think will likely continue to influence the tone and certainly the short term and probably more like the medium term at a minimum. That being said, we've continued to see meaningful supply move through the market. It's ebbed and flowed as it relates to which sectors have been most active. And we've definitely seen some sectors slowed down dramatically in the face of what's been pretty pronounced widening and spreads and obviously a meaningful move at benchmarks as well over the last several weeks. Last week, obviously, you all were in the market with a stacker transaction, which I think was a data point that the market was keenly interested to see in terms of how that transaction came together away from that trade. There was a very heavy ABS calendar there. The, it's generally shorter, duration paper was very concentrated in auto and spreads there after holding in quite well for the first, call it, two months of the year have played a little bit of catch up here last week in terms of spread widening. So we saw trades, call it 15 to 20 wider than they would have been just two or three weeks earlier, which is a decent move for, call it, two year AAA paper. So everything more or less has come under pressure. It's just sort of order of magnitude in terms of spread widening, ya know in certain instances, we've seen floating rate paper outperform. I think in certain instances we've seen shorter duration outperform, but there's a unique technical in each space and part of that technical where investors selling and secondary to make room for new issue. How are accounts thinking about adding duration in an environment where if they own a lot of mortgages, for example, the duration of their portfolio has extended meaningfully. And so there's a lot of variables in play. Definitely. Investors who have taken a step back from the market entirely or who see better value in IG credit than structured right now. And I think it's a very fluid situation. And I think we're all happy to have the Fed behind us. I think a slightly more hawkish tone out of the Fed than maybe the market was expecting. But nonetheless, I think one item of uncertainty out of the market and we do have another CRT trade that's expected here shortly. But I think the market in general will be a little quieter here for the next couple of weeks going into quarter end, which obviously from a supply demand perspective, will probably be a welcome dynamic to let things settle in here a bit going into the end of the month.

Mike Reynolds [00:09:42] In the transaction you're referring to, that we printed was what we call the Stacker 2022 HQA1, and we did come to market and we got that up and down. Just like you said in challenging times, spreads were clearly wider. Some participants stepping back, you know, it's important to us in our business model at Freddie Mac is we're here to provide liquidity, affordability, stability to the U.S. residential housing market. And we want to keep on guaranteeing the securities. And similarly, we really want to keep on sharing that credit risk with private investors. So we have a lot of incentive to continue to print deals in really strong markets, which is where we're coming off of some of the tightest spreads that we've seen in program history, and I think that's true across the board. But even as markets get a little bit tougher and in that particular transaction, we were being responsive to market conditions. We've had very, very large historic volumes with refi rates kind of finishing up last year and rates have started to rise now, CRT's generally being executed on a on a one to two quarter lag. So, you know, we're working to business that Freddie Mac guaranteed at the end of last year, we were going to come to market with I'm using rough numbers about a $2 billion transaction. We intentionally downsized that to, let's call it, about $1.6 billion to try to be a little more accommodative to the market situation. Now, happily report we had really, really significant participation, Actually we saw several new customers come into the books and we were able to upsize the investment grade portion of the top portion of our of our offerings, which I think is pretty significant. We ended up printing about 1.8 billion. So that's a little bit of color on that. So you talked a little bit about the broader market. CRT, again, we're recording here in mid-March. CRT has been probably underperforming, I think relative to, let's say, high yield or maybe I think CLO's have been very strong. I'd like to ask you, maybe seems like CLO's, I don't know if there's some, if there's any specific dynamics, why CLO's are holding up so well, if that's how you see it. But, what are some of the dynamics you're seeing specific to the CRT markets?

Christy Tintle [00:12:48] I think that what you're seeing is weakness, it's really weakness across the board, it's just how pronounced is that weakness and the biggest indicator of that is the supply technical. And so obviously with the return of Fannie Mae to the CRT market and sort of the nature of transactions that, you know, to a month generally and benchmark type size, you know, in in a volatile backdrop where certain investors are sidelined to the point that you made earlier, it does create a challenging supply demand dynamic. And the markets where we've seen the best performance, I think, are those that have had the least amount of issuance and CLO's definitely fit that description. They're also floating rate, which I think has helped but CLO's because it's more of an arbitrage transaction. You have third party, it's not uncommon for you to have third party equity that is going to sort of dictate if transactions move ahead with marketing versus stay on the sidelines. I think you've had most of the supply that would have come in the last three to four weeks opt to wait and sort of better assess what the right time is to come. And so because of that, there's been probably 20 percent of the volume that we would typically see come over the last three weeks. And those transactions, because there's been so few of them, had pretty decent success holding in the levels. And even in secondary where there's been, I think yesterday there was, call it a billion a paper out for Triple A's. I mean, that paper traded really well, all things considered, and I think it's just been primarily because there's been such a dearth of new issue volumes, and that has definitely helped sort of the tone. I think if you saw supply, you know, double or sort of normalize, that would put quite a bit of a pressure on spreads here. And somewhere in between that is sort of ABS and CMBS. I think your point about being sort of a programmatic issuer and issuing in both challenging and very constructive markets, issuers who think about, you know, ABS as a as sort of part of their funding strategy are going to continue to come and bring transactions. And maybe they wait a week or some, you know, de minimis amount of time, but they're largely going to issue as planned. And then you're going to see more opportunistic issuers or issuers who have a little bit more flexibility around their existing financing. Perhaps they opt to hold off. And so in CMBS, for example, there's definitely that dynamic where we're seeing certain issuers not proceed with transactions because they just don't view this as the right time to issue. And so anytime you see a pullback in supply, it's generally met with an outperformance and in spreads. So not to oversimplify it, but really does feel like the tone in any market is very correlated to what the new issue calendar looks like. And sort of currently in market and sort of short to medium term and in terms of expected pipeline.

Mike Reynolds [00:16:05] Yes. I think that was well explained. You know, certainly our perspective here at Freddie is we we've always tried to gravitate towards being a programmatic issuer. It's a little bit of unfortunate timing in terms of the technicals that you've just described. We have another GSE that's kind of back in the market in full force. We are producing CRT transactions based off of record breaking guaranteeing volumes, 2021 was a record volume year for Freddie Mac. We're also we were selling more risk, we're detaching higher, we're getting more, more protection for our transactions. So all those combinations are definitely, you know, increasing supply. You know, at a time with the fact, you know, the volatile backdrop, as you described. So that's a little bit challenging. And I think that's also why we rely very heavily on the syndicate. You know, the the art and the judgment and the skills of the syndicate death becomes even more important in challenging markets. And I will just also say, I personally and at the company, we get a little concerned with this idea of of waiting, and it definitely makes sense for certain issuers in certain situations. My view has always been I don't know if next week or next month will be a better market and if we can get the deal done now I'd rather get the deal done now than necessarily wait for better days. And that's not like a hard and fast rule. But just generally speaking, it's kind of hard to buy the dip, if you will.

Christy Tintle [00:18:16] And I think different issuers have different motivations and there's merits to both. But I think you all have been consistent with your messaging to accounts about how you how you think about the program. I think it's as important to be sort of clear and prescriptive aroundwhat your intentions are. I think that's as important as anything in terms of receptivity to transactions. And I think you'll continue to see, you know, again, some issuers hold off because that's what meets their needs best. And then, you know, perhaps others choose to pause for short for short periods of time just to be thoughtful about, you know what, the timing, what timing best suits them and everything in between. So it's definitely it's interesting. It's interesting times and definitely feels like everyone is looking for as many data points as they can ascertain to make an informed decision about what the best sort of path is and best approach is. And certainly your transactions are no different. And in these times we try to be as thoughtful as we can about, are there creative ways to approach the market? Are there things that we can do to ensure that the transactions getting the best receptivity possible and that we're sort of engaging investors in a way that suits both your as an insurer and their needs as investors. And it's challenging. And in this environment, I think even having been doing this for 10 years, you learn something on every trade.

Mike Reynolds [00:19:54] You do

Christy Tintle [00:19:58] It's an educational exercise each and every day as of late.

Mike Reynolds [00:20:02] You know, you talked about reaching out to investors through the sales force, we tranche up risk and I won't go into too much detail, but basically we offer a variety of investment options from, you know, from shorter term investment grade to very close to first loss. Can you just talk about a little bit about the differing pools that these that these bonds get placed into the different, you know, types of investment guidelines or considerations that investors are pools of money that investors have?

Christy Tintle [00:20:38] Yeah, absolutely. And I think I think you make a good point just in terms of differentiating between different parts of the capital structure because certainly there are investors who can buy and have the flexibility to participate across ratings across durations. But it's much more common for there to be more of a natural fit for certain investors or certainly for different pockets within those investors. And so you know, what I mean by that is, certain investors have need investment grade or certain pockets of capital? Those investors require investment grade. Some have duration constraints, want to buy five years and end. Certain investors have a preference for fixed or floating. There's a risk in the eligibility consideration when you're talking about CRT in particular, but in general for just, you know, the retirement and health plans, what sort of appropriate investors there. There's public versus private or 144A transactions. So there's a number of different factors And then probably the most important of which is the level so that the coupon or the spread in which a transaction is going to price and how that compares to comparable investment opportunities for these investors at any given time. But a number of factors that sort of weigh on and sometimes open up a larger pool of investors that could potentially participate or restrict the number of investors that can participate. So you think about insurance companies and NAIC considerations, does that cause them to gravitate towards more investment grade? Yes. Do you see more faster money, perhaps gravitate towards the bottom where there's not necessarily a rating? So things like that are pretty typical. And then in an environment like this where you see spreads widen quite a bit, it does, and you alluded to this earlier, bring in some new names that are maybe not your typical structured products buyer who see relative value versus maybe a high yield, for example. And so in this environment, it's actually very interesting to see what new names show up and what sort of has motivated them and to participate in a sector where perhaps they haven't been active for perhaps ever or for some reasonable amount of time.

Mike Reynolds [00:23:04] And we've seen quite a bit of that. We've seen that, you know, I would say probably a couple of dozen names close to that of few unique-name participants that have not necessarily purchased in the primary print in the past couple of years or at least since the onset of COVID. You had mentioned that investors start selling to get ready for a new issuance. Can you just high level describe what it is, how does the syndication process work? What are the different stages? What are we signaling to investors? How do they get prepared for…how do we how do we make sure that we're getting a fair market price? Could you just talk a little bit about the book building process?

Christy Tintle [00:23:53] Yeah, absolutely. So there is a good level of transparency, and it can vary in terms of how that transparency is made available, but around sort of a pipeline generically. So for credit risk transfer, you all obviously publish your expected pipeline on your website, so investors can sort of reference that and understand how many transactions to expect in a given quarter, for example. Leading up to a trade, there is a dissemination of a loan tape the week prior generally to, what I would call more formal pre marketing, so that obviously notifies the market and provides information for investors to begin their credit work before a full marketing package and price talk is is made available. So again, as you think about sort of the market expecting a transaction, that's the most clear signal that one is coming. And typically alongside that is some specifics around what to expect next and the timing of the dissemination of further information. A formal pre marketing process typically kicks off on a Thursday, and this is true for CRT, and it's true for several other asset classes, namely ABS, that typically begins what is a two day premarketing process that effectively allows you to build a book, behind the scenes might not be the right way to characterize it, but sort of try to garner early investor interest in in the transaction. Alongside a set of pre marketing materials is also what's called initial price talk, which is sort of the first set of price guidance that's provided to investors. And we use that to try to solicit indications of interest, and all that is is a size from an investor. So let's just pick a number, 10 million for example, that an investor may be interested in investing in a particular part of the transaction based on the price talk. So we'll go through a process where we aggregate all of those indications from investors, and we'll compare that against the size of the transaction and the size of the various classes that are offered. So, for example, just to pick a round number, perhaps on a B2 class, you would have one hundred and fifty million bonds to offer. As part of the bookbuild process, we would look at OK, is the subscription or is the interest in that B2 class more or less than the offered bonds? And we would then use that to inform sort of the next step of the process, i.e. does the price talk need to be tighter because we're oversubscribed? So we have, let's say, four hundred and fifty million of interest or three times the interest versus the one hundred fifty bonds available? Or do we only have 75 million of interest and we're only 50 percent subscribed. So in the latter scenario that signals to us, we don't have enough interest versus the bonds that we have available for sale. We probably need to offer some incremental incentive in the form of a concession in price stock. So if we were out with, again to pick a round number, a thousand, perhaps you would say, OK, well, maybe the next round of price talk, which is called price guidance, should be wider. Maybe it should be ten fifty to eleven hundred, for example, to try to garner that incremental interest to fill out the rest of the book. In the first scenario that I described where we have a hundred fifty million to sell and 450 million of interest, perhaps that suggests that we should be tighter. So if we were again using one thousand for the initial price talk, perhaps we should be nine fifty to a thousand when we go out with price guidance. So again, you're going to see as we go through the process in the book building, we're going to allow the demand for the bonds that we have to sell to inform directionally where we go from a pricing perspective. And sometimes we go nowhere from a pricing perspective. Sometimes we just repeat what the levels were that we suggested initially, but it's all going to be a supply demand dynamic. There are other considerations like the curve, for example. So if you have one class that's widening out, so for example, if the B1's were to widen out dramatically, does that impact where we would price the B2's? In all likelihood, yes. So there's going to be other considerations. But generally speaking, we're going out. We're trying to canvas the investor base, get indications of interest into a book, understand what that translates into in terms of total demand and then let that dictate the process from there in terms of when we move forward with a formal announcement. The next step be putting price guidance out, the next step being taking classes subject, which just means that we're no longer accepting indications of interest and then finalizing the pricing level before we do in fact, launch and price the transaction. So in a lot of ways, that's oversimplifying the process. There's definitely, you know, it's a combination of art and science I would say. And every transaction, as I alluded to, especially in this market, is very different. But the sort of milestones for the process generally are the same, and those look like pre marketing with the initial price talk, an official announcement, typically with price guidance, taking classes subject, finalizing what the pricing levels will be, launching, which just means communicating those final pricing levels to the market and then allocating, which effectively means communicating to investors how many bonds they'll be receiving as part of the syndicate process. And then lastly, officially pricing and communicating those pricing details out to the market and in a normal market that probably takes three days for credit risk transfer. In this market, I would say we're probably firmly in in the four day camp. Everything is just taking longer in this market and that that timing is just one more indicator for what is a challenge and choppy market that we find ourselves in.

Mike Reynolds [00:30:07] Again, I think you did a really good job for this audience describing the process and as you said, in a more challenging market, the process might take longer and in a more bullish market, the processcould go shorter. But usually what we try to do is we try to, you know, those couple of days like the typical Thursday Friday, that's designed to give all investors a fair opportunity to be able to indicate interest or not, including international investors. And I just think that's important to note that we do try to run and you and your team runs a very consistent process to make sure that everybody who is truly interested in the deal has an opportunity to express that interest before things move on to the next stage. So, Christy, you in addition to being the head of Asset Backed Finance at Wells Fargo, which I've mentioned is one of our top syndicates for the credit risk transfer program, you're also a stand out in the sense that you're a woman, a woman in finance, and that's just a little more rare. Not, you know this for sure, many accomplished successful women in leadership positions, but I don't know. I just wanted to notice that or call that out a little bit. And I don't know, is that… I'm sure that dawns on you. I'm not one to tell you that, but I don't know, anything that you can share in terms of your path or how you ended up where you ended up at Wells Fargo Syndicate?

Christy Tintle [00:32:02] Yeah, happy to. So I have another woman on my team, and I'll tell you that as I think about the complexion of syndicate desks on the street, it's not uncommon for there to be women and equal parts women. So, for example as I think about sort of the bogey tables for credit risk transfer, I think women are routinely part of, if not equal parts of the syndicate desks that sort of represent and participate on on your transactions. I don't know why, why that is per se, but I it's certainly a great and welcome dynamic as we think about sort of engaging with our counterparts on the street and sort of the complexity of the desk looking substantially similar from sort of a male-female perspective. But I've been very fortunate in my career to have some really stellar mentors, both male and female, but definitely some strong female examples that I've had the had the benefit of watching have big success in this business and have been very fortunate to be given the opportunity through very obvious hard work, but nonetheless, to run the desk and feel very fortunate to try to extend that to others that I work closely with every day.

Mike Reynolds [00:33:43] Yeah, it's a great point on syndicate, maybe that's something for people to study. Well, thank you for that. We're out of time. Do you have any do you have any closing comments before we wrap up?

Christy Tintle [00:33:58] No other than that I hope by the time this podcast gets published, we find ourselves in a slightly more stable market where we're talking a little bit less about how challenging it is to get transactions through the market. So hopefully a little bit less volatility from here on out.

Mike Reynolds [00:34:22] I hope so, too, Christy, and thank you again for all the work that you that you do to help syndicate Freddie Mac credit risk transfer transactions and then certainly for taking time out of your busy day and in a difficult market so I know your times, even that much more valuable. So we really do appreciate it.

Christy Tintle [00:34:44] Yeah. Thanks so much for having me. I appreciate it as well.

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