NEW YORK (Dow Jones)--In today's mortgage bond market, it's take it or leave it.

By Al Yoon
Of DOW JONES NEWSWIRES

That's the bold new attitude taken by many investors who are using the strongest market in a year to sell some of their holdings of the riskiest kind of residential mortgage-backed securities in recent weeks.

The grab for yield by other investors and Wall Street dealers has helped transfer power in the market for nonagency debt to sellers who can now force buyers to accept bulk sales of bonds without question, or go away hands empty. Analysts and traders said this type of offering, known as "all or none" has become popular over the last few weeks and reflects a bullish shift but also an outlet for those resisting the rally.

"It definitely speaks to strength in the market, said John Sim, a mortgage bond strategist at J.P. Morgan Chase & Co. "There's no need to entertain the individual bid, and you can sort of force people to buy lots" that even have some less favored bonds, he said.

Bank of America Merrill Lynch this week bought the latest all-or-none bidding, purchasing a $320 million pool of mortgage bonds from a money manager, according to people familiar with the sale. Out of 14 bonds purchased, BofA as of Wednesday had already re-sold nine, one of the people said.

All-or-none sales have gained popularity since five Wall Street dealers jockeyed aggressively for nearly $20 billion in bulk sales from the Federal Reserve Bank of New York's Maiden Lane II portfolio in January and February. The Fed adopted the strategy after last year auctioning $10 billion of bonds piecemeal, with dwindling success as dealers bid down the more tainted bonds.

Toxic conditions for the nonagency market linger, despite the positive economic outlook, analysts said. The bonds, which aren't backed by any federal entity, are vulnerable to sudden drops in payments to investors as some loan servicers contend their advances will no longer be covered when a property is sold. Home prices are still falling.

Polarized opinions have been reflected in the market for weeks. Prices on nonagency bonds haven't moved much since mid-February, after gaining 8% or more from November lows, according to Credit Suisse.

"A lot of accounts are seeing this as an opportunity to offload less desirable stuff," said Marina Tukhin, head of mortgage credit rating at Gleacher & Co. "Many more went to the sidelines as they don't believe this rally has enough steam to last a while."

In general, sellers are also accepting lower overall prices for their pools because they are placing more constraints on buyers, said Adam Murphy, president of Empirasign Strategies, which tracks trading in securitized debt.

But for now, evidence of economic recovery is trickling in. Benchmark 10-year yields have soared almost a third of a percentage point over the past two weeks following a period of economic reports showing both faster-than-expected growth and falling unemployment.

For Sim, the jump in interest rates was the affirmation sought by investors who are likely behind the success of all-or-none offerings.

"People are starting to feel more comfortable that risks of a downturn are reduced," he said.

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