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Update On NY Fed's Non-Agency RMBS Maiden Lane II Bid Lists

By Isobel Kennedy

NEW YORK (MNI) - The New York Federal Reserve, via its investment manager Blackrock Solutions, sold all the items on the third of its Maiden Lane II bidlists Thursday.

The Maiden Lane II portfolio consists of non-agency residential mortgage-backed securities that were acquired during the financial crisis in order to give financial support to American International Group AIG). On March 30, the NY Fed said it would begin to dispose of these assets via the competitive bidding process.

There were eight items out for the bid Thursday with a total face value of $534.12 million. All items traded.

Commenting on Thursday's list, Adam Murphy, President of Empirasign Strategies LLC, said the list traded about at expectations with some items lower than price talk and others above it.

"I am not seeing any re-offers yet," Murphy said, "but my guess is this list had better investor sponsorship because all the items were round lots and with the reduced line item count as compared to Wednesday it was easier to spend more time analyzing each bond."

On Wednesday, the NY Fed had another Maiden Lane II bidlist that contained 42 items and totalled $691.255 million face value. Of that, 37 items traded totalling $626 million.

Last week, the NY Fed put out its first Maiden Lane II bidlist via manager Blackrock. That list contained 52 items totalling $1.497 billion. On that list, 42 items traded with a total face value of $1.326 billion.

To date, the selling process has been successful, market sources say, although the existence of this new supply has encouraged other private investors to put out similar paper for the bid and that has also raised the potential supply in the market.

And in some cases, those investors were disappointed by the bids they received.

Market sources also say that this week's paper from the NY Fed did not receive quite as strong a bid as last week's paper did. But the first list was said to be filled with a lot of LIBOR floating rate paper that is very liquid. And the low dollar prices also encouraged good demand along with the fact that this type of paper has not been in supply in the market for some time.

There has clearly been real money buying in this bidding process, sources said, but the Street has also taken down a fair amount of paper.

In fact, Wednesday's bid list found the Street long more of the paper than in the previous week and in some cases the reoffering prices in the Street were cheaper than the initial price talk traders gave out on the bonds.

There will be no Maiden Lane II bidlists next week due to the Passover and Easter holidays. That will give the dealers time to digest the paper that has already been sold into the market by the NY Fed and private investors.

No one but those intimately involved in the process know the exact prices that were paid for these securities but on July 15, the NY Fed will published the exact details of the prices paid and who bought the items.

Before the New York Fed made its first sale on April 6, Maiden Lane II had an unpaid principal balance (UPB) of $25.6 billion, said mortgage strategist Walt Schmidt at FTN Financial.

While the sale of these assets represents real supply that had not been on "investors' radar screens" before the sales were announced, the supply needs to be judged in the "context of overall market trends," he said.

"The combined securitized Prime, Alt-A and Subprime markets have been amortizing, through either paydowns or defaults, at a run rate of $15-$20 billion per month for the past year," Schmidt said.

"Therefore, Maiden Lane II represents 'supply' of about 1.5 months worth of amortization. The supply will likely soften prices somewhat during the selling phase, but there is still no 'new' supply against investors in this space currently," he added.

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