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Differentiating "Alternative-A" and "B&C" Mortgage Programs

As mortgage lenders and conduits extend their reach into new market niches, structured-product investors encounter securities with unique collateral characteristics. In contrast, most private-label mortgage product was considered generic just a few years ago, when geographic concentration was the lone difference. At present, nonconforming mortgage loans collateralize at-least four subsectors: (1) traditional nonagency MBSs; (2) "alternative-A" nonagency MBSs; (3) "B&C" nonagency MBSs, and; (4) home-equity loan asset-backed securities. In this report, we compare and contrast selected program guidelines and collateral characteristics of major "alternative-A" and "B&C" lenders that are currently popular in the MBS and ABS markets.

In recent years, "alternative-A" and "B&C" collateral have become significant subsectors in the nonagency market.

Mortgage Collateral in Nonagency MBSs

In addition to traditional nonagency MBS, issued under the CWMBS, GECMS, NASCOR, and RFMSI shelf programs, the last two years have witnessed the introduction of new collateral types. For example, popular "alternative-A" programs (also referred to as niche or non-traditional loans) like those sponsored by Independent National Mortgage ("INMC" and "RAST" transactions), and RFC’s Residential Accredit Loan ("RALI") program, have accounted for a significant percentage of new-issue volume in nonagencies this year. As shown in Figure 35, both conduits issue securities backed by loans made to "A" credit borrowers (meet or exceed FNMA/FHLMC guidelines) that exhibit a preference for limited documentation underwriting. Those loans are often made to self-employed borrowers that prefer "stated-income" and "no income verification" underwriting. Another significant source of collateral is investor property loans. In addition to "A" credit loans, some popular "B&C" (credit impaired borrowers/high debt-to-income ratios) programs have developed an investor base in the MBS market. In fact, Option One Mortgage and Long Beach Mortgage issued securities in the MBS market before many other "B&C" issuers existed. "B&C" loans are mostly made to owner-occupants. Underwriting guidelines are flexible, and can permit higher debt-to-income ratios in exchange for lower loan-to value (LTV) ratios.