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SASCO 2005-RM1: Proprietary Reverse Mortgage Winning Streak Continues

Structured Asset Securities Corporation Reverse Mortgage Loan Trust Series 2005-RM1 ("SASCO 2005-RM1") became the third securitization trust of proprietary reverse mortgage loans to pay off completely. The remaining bondholders received their final payments on March 25, 2016; all bondholders received their principal and interest payments in full. The trust was created in March 2005, and was the third reverse mortgage securitization in U.S. history. The first two securitizations, SASCO 1999-RM1 and SASCO 2002-RM1, both paid off successfully in 2014.

SASCO 2005-RM1 issued 4 bond classes: Classes A1, A2, A-IO, and M1. The bonds, totaling $503.5 million, were secured by 1,218 proprietary reverse mortgage loans. These loans were almost entirely Financial Freedom "Cash Account" loans.

As we noted in 2014, reverse mortgage lenders need new products, as FHA continues to turn the screws on its HECM program. Proprietary loan origination peaked in 2007, with production near $100 million per month, but ground to a halt with the mortgage crisis, crashing home prices, and the virtual destruction of the non-agency securitization market. Beginning in 2014, reverse mortgage lenders have revived proprietary reverse mortgage originations, after a six year hiatus with very little new production.

SASCO 2005-RM1's history can only help this revival by reinforcing the relative value story of proprietary reverse mortgages. If properly structured, proprietary reverse mortgage securities provide substantial credit protection with (like their HECM cousins) very stable prepayments. The credit story derives mainly from the very low original Loan-to-Value ("LTV") ratios of these loans, combined with very conservative rating agency criteria. As was the case with all SASCO proprietary reverse securitizations, the rating agencies (in this case, Moody's, S&P, and Fitch) were right to insist that the triple-A Class A bonds be protected against a 30%+ decline in home prices — which was exactly the stress the trust successfully endured. The transaction's successful payoff continues a winning streak of nearly 17 years, including the darkest years of the mortgage crisis, in which no proprietary reverse mortgage bond has suffered a principal loss or write-down.

The stability of the prepayments can be seen in many ways, such as the relatively tight band of prepayment rates experienced by the trust during its 11 year tenure. The projected weighted average life for the Class A1 bond was 4.86 years at 100% of the Base Case Prepayment Curve ("100% PPC"), and 5.89 years at 75% PPC. The actual result: 5.17 years. Class A2 yielded a 2.88 year weighted average life, almost exactly equal to its predicted 2.86 year weighted average life. Class M1 was projected to have a 3.84 year weighted average life, and clocked in at 3.92 years. Class A-IO paid all of its cash flow exactly to its schedule.

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