

SUMMARY

HOME MORTGAGE BANK (HMB) is offering TTD 200 million in COLLATERALISED MORTGAGE OBLIGATIONS (CMOs). A CMO is a mortgage-backed security representing beneficial ownership interest in a pool of mortgage loans. HMB will effectively package cash flows from a pool of 538 MORTGAGES that it purchased from originator TRINIDAD & TOBAGO MORTGAGE FINANCE COMPANY LIMITED (TTMF) for sale to investors as Certificates. The Certificates will be segmented into Tranches, each with a different term to maturity, interest rate and risk profile. The real estate securing each mortgage acts as collateral for this offering, CMO 2019-01. The [Prospectus, CariCRIS report and Subscription Form](#) are available here.

CMO 2019-01 is HMB's third CMO issue; the previous two issued successfully in 1999 and 2000, respectively, totalling TTD 176.7 million. We've learned anecdotally that HMB took up some TTD 5 million residual upon the final maturity dates of these CMOs. The combined value outstanding as at 31-Dec-17 was TTD 2.5 million.

We conclude that CariCRIS' findings are sound, as are our outlook for relevant macroeconomic indicators and relative valuations to secondary market bonds. The tranches are suitable for investment grade, TTD-denominated fixed income allocations. We therefore recommend a **BUY**.

DESCRIPTION

Sector (GICS)	Financials	Issue Size	TTD 200,000,000
Industry (GICS)	Mortgage REITs	Minimum Investment / Increment	TTD 5000 / TTD 1000
Issue Type	Public Offering	Purpose	Financing
Prospectus Date	7-Feb-19	Structure	Tranches
Issue Closing	27-Feb-19	Issue Price per Tranche	100
Issue Date	1-Mar-19	Coupon Type	Floating
Extendible Period	2 WEEKS	Reference Rate	TTMF Mortgage Market Ref. Rate
CBTT Statutory Fund Approval?	Yes	Reference Rate Reset Frequency	Quarterly
Trustee	TTMF	Last MMRR (%)	7.00
Administrator	TTMF	Administration Fee (%)	1.00
Issuer	HMB	Payment Frequency	Monthly
Registrar & Paying Agent	HMB	Payment Type	Sequential Amortising by Tranche

HMB CMO TRANCHES AVAILABLE TO INVESTORS

Tranche	Amount (TTD millions)	Time to Maturity (Years)	Average Life (Years)	Expected Principal Repayments	Margin below Mortgage Pool Rate (%)	Initial Coupon Rate (%)
A	25	1.25	0.54	Mar-19 to Jun-20	3.95	2.05
B	25	2.42	1.71	Jun-20 to Aug-21	2.95	3.05
C	25	3.59	2.90	Aug-21 to Oct-22	2.30	3.70
D	25	4.84	4.09	Oct-22 to Jan-24	1.95	4.05
E	25	6.09	5.35	Jan-24 to Apr-25	1.25	4.75
F	25	7.51	6.72	Apr-25 to Sep-26	0.80	5.20
G	25	9.26	8.24	Sep-26 to Jun-28	0.70	5.30
H	12.5	10.59	9.77	Jun-28 to Oct-29	0.35	5.65
I	12.5	12.85	11.49	Oct-29 to Jan-32	0.25	5.75

STRUCTURE

HMB will make payments to Certificate holders on the actual receipts from the Mortgage Pool—including prepayments. Principal for each tranche available to investors will be repaid sequentially, with the final principal payment coinciding with the maturity of the respective tranche. Thus, **SERIES A WILL BE FULLY REPAID BEFORE PRINCIPAL REPAYMENT STARTS ON SERIES B, AND SO ON.**

TRANCHES T AND R will be Administrative tranches—unavailable to investors—retained by HMB for Trustee fees and residual cash flows, respectively. Tranche T represents an interest-only Tranche: **0.25%** per annum paid monthly (out of Margins from A through I). Tranche R is payable to HMB for general working capital cash flows. It represents monthly surplus receipts from the Mortgage Pool after payment to all Certificate Holders and the Trustee: **NO SURPLUS RECEIPTS WILL MEAN NO CASH FLOWS ALLOCATED TO TRANCHE R.**

CMO 2019-01 will be a closed-end pool. There will be no active management; so **MORTGAGES CAN NEITHER BE ADDED NOR REMOVED.** TTMF will act on investors' behalf in the event of mortgage defaults. HMB acquired the mortgages after TTMF **ORIGINATION DATES BETWEEN DEC-16 AND FEB-18.**

COUPON

The **MORTGAGE POOL RATE** is calculated as the weighted average interest rate earned on the Mortgage Pool less the Administration Fee. The Mortgage Pool Rate will be subject to reset based on local economic and liquidity conditions, Approved Mortgage Lenders' interest rate offerings and **AT THE DISCRETION OF TTMF IN CONSULTATION WITH HMB**.

All the mortgages in the Mortgage Pool carry the same **7% per annum interest rate** (these mortgagees neither qualified for the Government's subsidised rates nor borrowed for purposes other than acquiring property). These mortgages are **NOT** subject to revisions of the Central Bank of Trinidad & Tobago Mortgage Market Reference Rate. TTMF's rate was **REDUCED FROM 8% TO 7% IN OCT-12**. Previously, the rate was changed in the late 1990s.

COLLATERAL

Each mortgage in the Mortgage Pool will be secured by **RESIDENTIAL PROPERTY**.

The Mortgage Pool will hold, on average, a **COLLATERAL COVERAGE RATIO OF 1.04:1** for the Certificates distributed or some TTD 208 million as of writing; as at Dec-18 the Mortgage Pool was TTD 214 million for 1.07 coverage in anticipation of targeting 1.04 coverage upon issue.

GEOGRAPHY

Region	Cities, Boroughs & Regional Corporations	Mortgage Pool Wgt (%)
East	Arima Borough Council	18
East	Tunapuna / Piarco Regional Corp	17
Central	Chaguanas Borough Council	14
Central	Couva / Tab'Qte / Talparo Regional	9
South	San Fernando City Council	9
West	Diego Martin Regional Corporation	8
East	San Juan / Laventille Regional Corp	8
East	Sangre Grande Regional Corp	3
West	P.O.S. City Council	3
Tobago	Tobago West	3
South	Siparia Regional Corporation	2
South	Princes Town Regional Corp	2
South	Penal / Debe Regional Corp	2
Tobago	Scarborough	1
South	Point Fortin Borough Council	1
South	Mayaro / Rio Claro Regional Corp	1
Tobago	Tobago East	1

Region	Mortgage Pool	
	(TTD Millions)	Wgt (%)
East	99	46
Central	48	22
South	34	16
West	24	11
Tobago	9	4

Source: HMB

LIQUIDITY

HMB WILL TRADE IN CERTIFICATES HELD BY INDIVIDUAL INVESTORS ONLY PRIOR TO THEIR RESPECTIVE MATURITY DATES up to the value of **TTD 1 MILLION** in aggregate per investor **OVER ANY TWELVE-MONTH PERIOD**. Institutional investors seeking to dispose of their Certificates will be required to source a third party willing to purchase these Certificates. **HMB WILL TRADE IN INSTITUTIONAL INVESTORS' CERTIFICATES AT ITS DISCRETION**.

RATING COMPARISON

Issuer / Issue	Credit Rating (Local Currency)		
	Regional	National	Outlook
GORTT	CariAA+	ttAAA	Stable
TTMF	CariAA-	ttAA-	
HMB	CariA	ttA	
NIFHL	CariAA	ttAA	
CMO 2019-01	CariAA-	ttAA-	
Tranches A, B & C	CariAA	ttAA	
Tranches D, E & F	CariAA-	ttAA-	
Tranches G, H & I	CariA+	ttA+	

Besides TTMF and HMB are the Trinidad & Tobago government (GORTT) and National Investment Fund Holding Company Limited (NIFHL). Ratings are **NOT NECESSARILY COMPARABLE BETWEEN** issuers and CMO 2019-01 and its tranches, whose ratings are specific to structured obligations.

RISK FACTORS

CariCRIS reported overall: **'HIGH' CREDIT QUALITY**, **MODERATE MARKET RISK** and **LOW COUNTERPARTY AND LEGAL AND REGULATORY RISKS**.

CREDIT RISK

CMO 2019-01 will comprise mortgages whose **UNDERWRITING CHARACTERISTICS** included the following:

- All mortgages would be current with **NO HISTORY OF ARREARS WITHIN THE LAST 12 MONTHS**. CariCRIS found that although 26% of the Mortgage Pool had a **30-DAY HISTORY OF ARREARS AS AT 31-DEC-18**, timing differences in payment settlement typically arise as within the first 30 days of the payment date; **CARICRIS EXPECTED NORMALISATION OVER TIME**.
- Mortgages met the HMB's normal lending criteria of **30% GROSS DEBT SERVICE RATIO**, **40% TOTAL DEBT SERVICE RATIO** at the time of origination, with exceptions granted per the Approved Mortgage Lenders' underwriting policy.
- TERM OF MORTGAGE NOT EXCEEDING THE BORROWERS' RETIREMENT AGE**.
- LOAN TO VALUE RATIOS DID NOT EXCEED 90% AT THE TIME OF ORIGATION** and were based on valuations from reputable valuers only.

CariCRIS emphasised that **SEASONING COULD INCREASE DEFAULT RISK**. That the underlying were originated within the last 3 years means that the Mortgage Pool has **NOT EXPERIENCED A FULL BUSINESS CYCLE**. While borrowers are reasonably unlikely to default early on their mortgages, such will unlikely reflect a true, ageing mortgage profile. **LONG-TERM CERTIFICATE HOLDERS** will thus have greater exposure to loss of principal as the concentration on the mortgage pool increases over time due to scheduled and early mortgage repayments.

MARKET RISK

PREPAYMENT RISK

Certificate holders will receive mortgage prepayments made by the Mortgage Pool. These potential ahead-of-schedule principal payments **RISK REDUCING EXPECTED YIELD** and return over the tenor—but prepayments also reduce credit and interest rate risks.

We consider HMB's assumed prepayment rate to be sound and that **ABOVE-AVERAGE PREPAYMENT RATES WILL BE UNLIKELY** given CMO 2019-01's geography allocations, mortgage summary statistics (Prospectus page 27) and our findings below that form our macroeconomic outlook.

MACROECONOMIC OUTLOOK

Select Indicators		2013	2014	2015	2016	2017	2018
Interest Rates	Core Inflation (%)	5.2	5.7	4.7	3.1	1.9	1.3
	GORTT 10Y (%)	2.5	2.7	3.9	4.4	4.3	4.4
	Repo Rate (%)	2.75	3.25	4.75	4.75	4.75	5.00
Growth	Real GDP Growth (%)	2.0	(1.0)	1.8	(6.5)	(1.9)	1.9*
	Unemployment Rate (%)	3.7	3.3	3.4	3.9	4.8	--**
	Import Cover (months)	12.2	12.9	11.2	10.5	9.7	8.0
Asset Quality: NPLs / Gross Loans (%)	TTMF	--	3.42	3.8	3.7	4.0	5.0***
	Commercial Banks	4.2	4.1	3.4	3.1	2.9	n.d.
	Comm. Banks & NFIs	5.5	6.2	5.8	4.6	2.9	n.d.

Sources: Central Bank of Trinidad & Tobago, CariCRIS, TTMF Annual Report

Real GDP Growth in 2018 was the CSO's provisional estimate. Second, CBTT's Jan-19 Economic Bulletin reported that the CSO measured a **WORSE UNEMPLOYMENT RATE**; and TTMF's last NPL ratio was as at Sep-18.

- GROWTH FORECASTS** are mixed among the IMF (0.2%), Focus Economics (1.5%) and Trading Economics (1.6%). Challenges to energy and manufacturing sectors as well as fiscal consolidation constrain expectations below the different regional averages between ECLAC (1.7%) and CDB (2%). The IMF and Trading Economics project 2.7% and 1.5% **INFLATION**, respectively.
- The Commercial Bank Basic Median Prime Lending Rate rose 25 bps two quarters after the **CBTT REPO RATE INCREASE**, but its real estate mortgage rate remained flat.
- RETAIL CONSUMPTION GROWTH Y/Y WAS POSITIVE** for the first time since 2016; 2018 was mixed. Consumption growth rates for supermarket and dry goods were flat since over the same period. **SAVINGS** were relatively flat but fell as a share of the money supply since 2014.
- According to CBTT's 2017 Financial Stability Report, estimated **HOUSEHOLD DEBT GROWTH** rose in 2016 and slowed in 2017 (excepting consumer mortgage growth) but not commensurately with GDP per capita.
- Further, despite our table's aggregate trend, **COMMERCIAL BANK SEGMENT NPL RATIOS ALL INCREASED SINCE 2015**: real estate mortgages, motor vehicles, credit cards and refinancing. **TTMF REMAINED AMONG THE LOWEST NPL RATIOS** among CariCRIS' sample of local Non-Bank Financial Institutions.

COUNTERPARTY RISK

CariCRIS does not expect the [proposed merger between TTMF and HMB](#) (page 4 on the link) to have any negative impact on either party's responsibilities but writes that a merger **WILL NECESSITATE THE SEPARATION OF ROLES** of each, particularly TTMF as Trustee and Administrator.

RELATIVE VALUATION

HMB Tranche	NIFHL Series	Yield / Duration				HMB Tranche Premium (Discount) Per Comparable		
		HMB	GORTT TTSE	GORTT CBTT	NIFHL	GORTT TTSE	GORTT CBTT	NIFHL
A		3.8	4.9	3.6		(22%)	6.7%	
B		1.8	1.6	1.7		9%	2.0%	
C		1.3	1.1	1.1		16%	15.7%	
D	A	1.0	0.9	0.8	0.9	9%	17.7%	15%
E		0.9	0.7	0.7		24%	28.4%	
F		0.8	0.6	0.6		26%	32.0%	
G	B	0.6	0.6	0.5	0.6	10%	27.0%	0%
H		0.6	0.5	0.4		10%	28.8%	
I	C	0.5	0.5	0.4	0.5	3%	24.2%	(9%)

We approximate the relative value using **INTEREST RATE RISK**-adjusted yields, assuming each CMO tranche's initial coupon rates are constant. We also interpolate the measures for each comparable using the Jan-19 Central Bank TTD yield curve (GORTT CBTT) and the 28-Feb-19 Trinidad & Tobago Stock Exchange Corporate (NIFHL) and Government (GORTT) Bond Summaries. The CBTT curve was **LESS RELIABLE** here because it charts tenor—not duration.

The relative value generally matches intuition: **RISK-RETURN TRADE-OFFS ARE BETTER** for CMO 2019-01 compared to listed, higher credit quality securities, disregarding structural differences. These alternative bonds, however, trade on a characteristically **ILLIQUID SECONDARY MARKET**. Thus, investors may find it difficult to achieve the **ADDITIONAL 0.30% TO 0.60% OF YIELD** that makes purchasing near-maturity government bonds or NIF Series C 6.60% 09/08/38 more attractive.

CONCLUSIONS & RECOMMENDATIONS

We recommend a **BUY** for CMO 2091-01 based on 'high' credit quality; diversification of economic and reference rate exposures; and attractiveness relative to listed, CariCRIS-rated alternatives, which will unlikely be easily investable.

Investors should consider especially tranches' amortising structure, estimated tenor and average life for **CASH FLOW PLANNING**.

TRANCHES A AND B are appropriate for short time horizons and institutions' short-duration management as well as for expectations for additional repo rate increases and or a faster-than-anticipated local economic recovery.

TRANCHES C THROUGH F offer the clearest signal of competitive expected return for the interest rate risk taken—and 'high' credit quality.

TRANCHES G THROUGH I are suitable for long time horizons and goals for higher return for higher risk—lower but still 'good' credit quality. We recommend these tranches with less certainty, however, based on our expectations for a higher interest rate environment for those horizons.

DISCLOSURE

TTMF and Firstline Securities Limited (FSL) entered a **DISTRIBUTION AGREEMENT** on 7-Feb-19: TTMF will pay FSL out of CMO 2019-01 assets for Certificate sales that Firstline executes.