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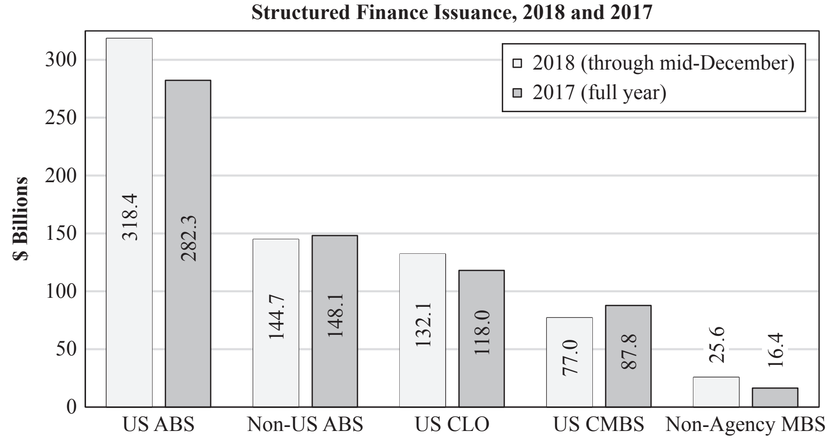
Welcome to the Winter 2019, residential mortgage-themed issue of *The Journal of Structured Finance*. As of mid-December 2018, issuance levels in most sectors had slightly surpassed those of 2017.

Structured Finance Issuance, 2018 and 2017



Sources: Asset-Backed Alert, Commercial Mortgage Alert.

All else being equal, this would presage a reasonably positive outlook for 2019. Indeed, the recent ABS East 2018 event in Miami Beach attracted nearly 5,000 attendees and the prevailing sentiment was that the next downturn is still more than a year away. However, the Fed is raising interest rates (target rate of 2.5% as of this writing) and the stock market is falling (the S&P 500 Index was down 6.24% for the year, after having been up by 10% at its peak; the DJIA is off 5.63% for the year). Overall, the prospects for 2019 seem rather uncertain.

This issue's lineup of articles begins with an article by Douglas Duncan and Orawin Velz, both of Fannie Mae, who examine how the reduction in the Fed's holdings of MBS is affecting the MBS market. They expect that banks will continue to be buyers of MBS (partly because of favorable capital treatment) and that the MBS market will continue to be challenged by strong supply as the Fed continues to unwind its holdings.

David Zhang of MSCI, Jan Zhao of Ernst & Young, Joy Zhang of MSCI, and Fei Teng, Siyu Lin, and Henry Li of Ernst & Young present a prepayment model for agency MBS based on neural networks. They demonstrate that their model, using machine learning, produces highly accurate results for 30-year, fixed-rate pools. Regular readers of the Journal may recall that the last issue featured an introduction to machine learning by Eric Kolchinsky, director of the structured securities group of the National Association of Insurance Commissioners. Maybe this is

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the start of a trend, reflecting the growing importance of machine learning technology in structured finance (as in many fields).

Mike Fratantoni, of the Mortgage Bankers Association, discusses how the changing dynamics of the primary mortgage market are creating challenges for lenders. He discusses how independent mortgage banks have taken a larger role in the market and asserts that the industry is quickly moving toward increased automation and faster turnaround for applicants.

Michael Stegman, a senior research fellow at the Federal Reserve Bank of St. Louis, and former senior policy advisor for housing in the Obama administration, writes about down payment assistance (DPA) programs and how they can affect defaults and prepayments on securitized mortgage loans. He explains how certain models for DPA tend to lower prepayment speeds. He also notes that investors may not be fully utilizing available data that identifies loans with DPA in Ginnie Mae pools.

Karan Kaul and Laurie Goodman, both of the Urban Institute, consider various options for replacing the so-called "GSE patch," which classifies any mortgage loan eligible for purchase by Fannie Mae or Freddie Mac as a "qualified mortgage" or "QM," even if it would otherwise be ineligible for that classification due to having a debt-to-income ratio (DTI) above 43%. Kaul and Goodman recommend replacing both the 43% DTI limit and the GSE patch with a different test based on a loan's interest rate. Any loan with an interest rate less than 1.5 percentage points above the Average Prime Offered Rate would be classified as a QM.

Frank Nothaft of CoreLogic examines the possibility that we are moving into a home price bubble. Based on various measures he concludes that a bubble is probably not forming at a national level. He examines not only the recent trend in home price appreciation but also the prevalence of house flipping activity and the pipeline of for-sale supply.

As always, we welcome your submissions. Please encourage those you know who have good papers or who have made good presentations on structured finance- or project finance-related subjects to submit them to us.

Submission guidelines can be found at http://jsf.iprjournals.com/authors. If you have comments or suggestions, you can e-mail me directly at M.Adelson@PageantMedia.com.

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