BofA SECURITIES

Trader Insights

Actionable Ideas for the Power to Trade Smarter

Spotlight on Agency MBS TBA options

Ruke Ufomata

Director, US Rates Options Trading

Mr. Ufomata: Agency mortgage-backed securities represent one of the largest U.S. bond market sectors, and one of the most actively traded markets, second only to U.S. Treasuries. Backed by Fannie Mae, Freddie Mac, and Ginnie Mae, agency MBS represent the bulk of U.S. mortgages. They trade on a forward basis in the form of future contracts called mortgage-to-be-announced or “TBAs.” Similar to Treasury futures, TBAs trade in a deep, liquid market that’s been active for decades.

Investors seeking a hedging strategy to cover their agency MBS holdings might consider TBA option contracts. Buying put options enables investors to sell their MBS assets at a specific price and may be appropriate strategies for a broad population in the financial services industry, from fixed-income fund managers to mortgage servicers, mortgage loan originators and REITs.

Investors seeking alpha might consider TBA options to take advantage of relative values by selling implied volatility. TBA options may also provide a strategy for investors who are leaning underweight agency MBS in anticipation of Fed tapering, offering a levered position to improve performance and protect portfolios from widening mortgage spreads.

For more perspectives into agency MBS TBA options, contact your BofA Securities sales representative, and explore the rest of our Trader Insights series for more ideas across asset classes.