Mortgage REIT Slide Accelerates as Fed Expands Bond Buying (1)
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(Updates with Sterne Agee comment in eighth paragraph.)

By Jody Shenn and Felice Maranz

Oct. 15 (Bloomberg) -- Real estate investment trusts that buy mortgage debt slumped the most in a year, continuing a decline that started last month after the Federal Reserve announced it would expand its buying of home loan securities.

A Bloomberg index of shares in the REITs tumbled as much as 4.5 percent, the largest intraday drop since October 2011. The measure declined 1.9 percent as of 12:50 p.m. in New York, after falling 4.2 percent last week. Annaly Capital Management Inc., the largest, and American Capital Agency Corp., the second biggest, each lost 2.6 percent.

The Fed’s expanded mortgage-bond buying is creating pressures on the companies’ earnings and dividends. Rapid growth funded by share sales has also brought in skittish investors, Stifel Nicolaus & Co. analysts wrote in a report last week.

Wunderlich Securities Inc. lowered its earnings estimates on 13 mortgage REITs today citing higher refinancing among homeowners.

“Dividends are under pressure and could be cut by as much as 20 percent,” Merrill Ross, a Wunderlich analyst, wrote in a report.

The REITs’ dividend yields are 13.3 percent, based on current share prices and the firms’ recent payouts, according to data compiled by Bloomberg. The stocks have returned about 20 percent this year, assuming reinvested dividends.

While Ross expects “considerable price volatility” in the next few months, even reduced dividends will be “nearly impossible” for investors to replace, she said.

Mortgage REITs have raised $17 billion through equity sales this year, after a record of almost $20 billion in 2011, according to Bloomberg data.

‘Reactionary Selling’

“On the heels of last week’s downdraft in the space, we think today’s action has been driven overwhelmingly by the retail community through reactionary selling as well as stop loss triggers which have only intensified the pressure,” Jason Weaver and Calvin Hotrum, analysts at Sterne Agee & Leach Inc., wrote in a research report.

The Fed’s mortgage-bond buying has reduced yields on the REITs’ new investments, while sending home-loan rates to record lows and refinancing applications to the highest level in more

than three years.
The firms have more to lose from rising prepayments after paying more above face value for their holdings, according to the Baltimore-based Stifel Nicolaus analysts.

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