

# MBS Hedging

## Hedge Mortgage Backed Securities Using Eris Swap Futures

### High correlations, efficient execution, and low margins make Eris Swap Futures an attractive hedging instrument for Mortgage Backed Securities

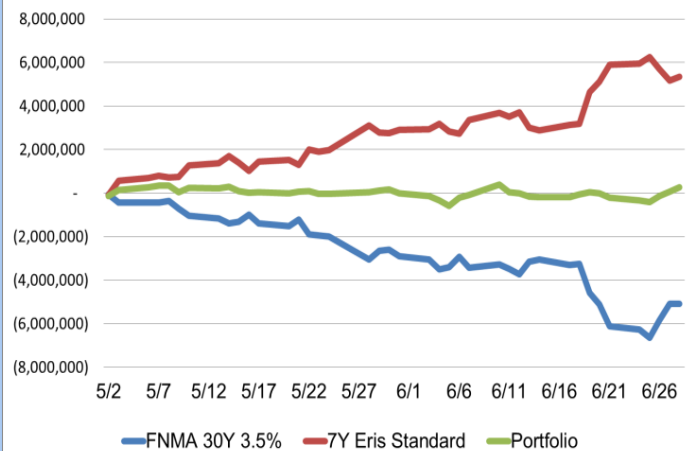
- End users with exposure to Mortgage Backed Securities often hedge rate risk using swaps given the higher degree of correlation and greater tenor flexibility than cash Treasuries or Treasury futures
- Eris Exchange offers the same risk profile and much of the same tenor granularity as cleared swaps, but at a much lower all in cost

## Swap Risk Demonstrates High Correlation to Mortgage Risk

### Correlation vs. 30Y Current Coupon Rate

Historical Time Periods (Through 8/31/15)	7Y Swap	10Y Treasury Future
3Y	0.89	0.82
5Y	0.89	0.83
10Y	0.82	0.76

P&L of \$100mm 30Y FNMA MBS vs 7Y Eris Standard  
May 2013 - Jun 2013



### MBS correlation to swap risk is strong during periods of high volatility

Sep to Dec 2008	0.63	0.50
May to Jun 2013	0.93	0.65

## Effective Hedging

During the volatile months of May/June 2013, hedging a FNMA 30Y MBS position with a 7Y Eris Standard would have effectively reduced losses and minimized volatility

[www.erisfutures.com](http://www.erisfutures.com)

Contact Eris to get started:

Call (888) 587-2699 option 2

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## Eris Swap Futures Are Well Suited to Hedging Mortgage Risk



### Efficient Execution

- Trade Eris Swap Futures vs. MBS as a spread package of any size by voice and identify it as an Exchange for Physical (EFP)
- No need to trade on SEF and no leg risk
- End users can choose from 2-, 3-, 4-, 5-, 7-, 10-, 12-, 15-, 20- and 30-Y On-The-Run Standards or 50+ additional points on the curve using Off-The-Run Standards to match a given profile

### Low Margin Requirements

Eris Standards initial margin is 40-60% lower than for comparable cleared OTC swaps

IM per \$100mm	7Y Eris Standard		Cleared IRS (5 Day VaR)		Cleared IRS (7 Day VaR)	
	Pay/Rec Fixed		Pay Fixed	Rec Fixed	Pay Fixed	Rec Fixed
IM (% of Notional)	<b>1.30%</b>		2.24%	3.14%	2.99%	3.06%
IM (\$)	<b>\$1,300,000</b>		\$2,240,000	\$3,140,000	\$2,990,000	\$3,060,000

### Common Applications

- REIT: Pay fixed using Eris Standards to offset the risk of rising rates on an Agency MBS portfolio
- Mortgage Servicer: Receive fixed using Eris Standards to hedge against falling rates on MSR assets

### Reduce Transaction Cost

Legging in by crossing the bid/ask can cost up to 1 bp (~\$70k for a \$100mm trade)

Due to reduced market risk, trades executed as a single package are likely to incur significantly lower bid/ask

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