Interest Rate Shock

MBS Spread-Widening and Rising Losses

Increased Volatility and Counterparty Credit Risk

Higher Haircuts and Reduced Funding

Forced Asset Sales

Higher rates lead to wider MBS spreads.

Wider MBS spreads reduce book value, equity, and assets available for repo.

Increased volatility and counterparty risk concerns lead to tighter funding conditions.

Reduced funding, inability to raise equity, and market demands to reduce leverage lead REITs to sell assets.

Asset sales drive MBS spreads wider, reinforcing the rise in rates.

Source: IMF staff estimates.
Note: MBS = mortgage-backed security; REIT = real estate investment trust.