

Model Performance

Prepayment Analysis

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Prepayments came out of the winter doldrums in March, posting overall increases for the first time since November to December. We observed a balance-weighted average increase of 15-17% for FNMA 30-yr 6.0's to 7.0's, and an 11-14% increase for the same coupons in FHLMC 30-yrs. Interestingly, there was a small 1% drop in the FNMA 7.5's and 8.0's, which shows just how burnt out those pools are. Overall, the balance-weighted average increase for all FNMA 30-yr coupons was 16%, which is almost right on point with the 15% we predicted last month. The GNMA's behaved a bit differently, as there was only a single-digit percentage increase across all 30-yr coupons in the 5.5-8.0 range. Looking at the FHLMC hybrid ARM data, we observed balance-weighted average increases between 12-20% in Libor and Treasury indexed 5/1's, 7/1's, and 10/1's (all during their initial reset period), while 3/1's posted a very large increase of almost 40%, most likely due to reset behavior.

v5.2b Fixed Rate

Coupon	FNMA 15			FNMA 30			FHLMC 15		
	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4	7.04	5.74	\$24,357,499,866	4.38	5.22	\$536,718,591	7.3	5.73	\$37,440,087,577
4.5	8.85	6.91	\$96,065,450,834	7.02	6.35	\$38,536,975,383	8.72	6.62	\$121,595,334,416
5	10.95	8.5	\$100,904,533,863	8.87	8.25	\$325,646,822,351	10.29	7.85	\$122,780,430,564
5.5	12.13	8.89	\$45,730,467,281	11.04	9.79	\$464,474,588,066	11.41	7.94	\$61,404,376,977
6	14.51	11.68	\$24,590,994,781	13.72	13.52	\$285,056,451,986	13.61	9.9	\$28,839,105,898
6.5	16.92	13.38	\$6,135,621,126	18.3	22.2	\$104,691,634,518	15.14	12.83	\$6,829,008,348
7	17.69	16.16	\$1,849,742,057	22.79	24.89	\$27,187,006,812	18.93	14.65	\$2,046,659,516
7.5	18.98	18.37	\$654,246,345	21.01	27.09	\$7,106,073,159	20.51	16.92	\$827,381,906
8	22.87	20.34	\$222,511,424	21.81	30.37	\$3,145,044,410	20.88	19.68	\$259,498,618
avg	10.6	8.3		11.9	11.6		10.1	7.6	
diff		-2.4			-0.3			-2.5	

Coupon	FHLMC 30			GNMA 15			GNMA 30		
	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4	6.41	5.27	\$523,004,448	9.65	10.32	\$969,390,533	18.44	7.55	\$1,884,728,810
4.5	6.17	6.35	\$43,465,277,872	11.91	10.62	\$3,452,385,671	12.72	10.31	\$8,662,066,197
5	8.37	7.92	\$361,811,983,633	12.11	11.24	\$5,706,629,762	11.83	12.68	\$63,066,069,714
5.5	10.21	9.02	\$454,610,238,968	13.41	11.11	\$2,554,351,637	12.27	14.19	\$109,183,911,578
6	12.61	10.33	\$289,093,543,220	14.23	11.62	\$1,757,998,126	12.86	16.96	\$79,238,411,041
6.5	18.7	18.89	\$100,520,089,380	18.72	13.14	\$678,778,985	18	21.42	\$32,110,834,057
7	21	23.12	\$20,686,877,284	17.39	13.33	\$372,078,831	19.76	22.56	\$11,612,575,390
7.5	16.92	24.35	\$6,087,708,369	21.17	13.3	\$138,680,005	17.79	22.05	\$4,376,961,450
8	18.28	28.3	\$2,794,099,527	19.46	13.68	\$72,651,566	17.54	22.51	\$2,602,936,962
avg	11.0	10.0		12.9	11.2		13.4	15.7	
diff		-1.0			-1.7			2.3	

5.2b Hybrid ARM

Coupon	FHLMC 3/1			FHLMC 5/1		
	Actual	Model	Current Balance	Actual	Model	Current Balance
3.25	40.79	29.18	\$152,793,664	-	-	-
3.5	40.36	33.43	\$409,827,422	-	-	-
3.75	43.34	36.68	\$663,096,512	10.54	18.83	\$443,984,735
4	50.56	42.4	\$714,547,511	14.22	18.83	\$1,153,850,741
4.25	39.4	36.22	\$510,023,411	12.38	18.92	\$3,019,891,805
4.5	27.43	31.24	\$1,278,620,084	13.14	19.54	\$5,651,397,534
4.75	28.56	30.89	\$1,670,174,562	15.52	20.37	\$9,952,879,115
5	24.09	33.21	\$1,165,133,727	13.68	21.93	\$10,294,490,941
5.25	23.37	33	\$692,747,185	15.05	23.79	\$12,242,686,156
5.5	26.46	35.83	\$538,317,741	14.9	25.7	\$4,910,626,836
5.75	31.03	35.17	\$256,893,591	15.86	25.72	\$3,415,011,271
6	29.45	33.94	\$344,505,700	18.93	25.04	\$2,541,258,265
avg	31.8	33.9	\$8,396,681,110	14.7	22.3	\$53,626,077,399
diff		2.1			7.6	

Coupon	FHLMC 7/1			FHLMC 10/1		
	Actual	Model	Current Balance	Actual	Model	Current Balance
3.25	-	-	-	-	-	-
3.5	-	-	-	-	-	-
3.75	-	-	-	-	-	-
4	-	-	-	-	-	-
4.25	-	-	-	-	-	-
4.5	10.65	11.17	\$548,135,477	-	-	-
4.75	10.68	12.08	\$2,002,430,085	-	-	-
5	11	13.43	\$5,750,321,752	6.18	9.41	\$816,175,513
5.25	11.25	15.09	\$6,144,930,307	9.08	11.12	\$1,869,844,098
5.5	10.44	15.52	\$2,792,135,916	9.28	11.66	\$3,152,527,708
5.75	11.66	16.34	\$1,442,153,677	8.16	10.73	\$1,217,019,902
6	10.62	14.33	\$1,220,393,832	9.87	10.81	\$850,110,000
avg	11.0	14.3	\$19,900,501,046	8.8	11.1	\$7,905,677,221
diff		3.3			2.3	

The increases posted in March were right in line with the 15% increase we forecast last month, although other research indicates that some analysts were expecting a higher increase. Given the current state of the home price market, as well as the mortgage rates during the March refi period, the model was able to accurately capture borrower behavior. Moving into April, we should see relatively stable prepayments in line with the March numbers, perhaps with some increases in the 30-yr mid-to-low coupon range - around 5-7%. Prepayment for ARM's should nudge a bit higher as well, as we see more 5/1's and 3/1's approaching reset. There is still around \$3.1 billion outstanding for 2004 3/1's and \$3.2 billion outstanding for 2002 5/1's. As these pools approach reset, look for speeds in the 50-60 CPR range.

Clients may go to **<http://dynamic.ad-co.com/performance/>** to link directly to the performance reports used to generate these numbers and analyze the data in more detail.



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