

Model Performance

Prepayment Analysis

by Dan Szakallas

As expected, prepayments spanning both fixed-rate and ARM collateral fell across the board from December to January. Fixed rate 30-year collateral fell on balance weighted average of 5.0% for FNMA's, and by 7.5% for FHLMC's. The magnitude of the drops was about the same in the 15-yr collateral coupon stack for agencies as well. For GNMA's, we saw a balance weighted decrease of 7.0% for 15-yr collateral, and almost 9.0% for 30-year collateral. Looking at FHLMC hybrid ARM data, we saw balance weighted drops between 7%-13% in Libor and Treasury indexed 3/1's 5/1's and 7/1's (all during their initial reset period), but interestingly we saw an increase of about 1% for 10/1's.

v5.2b Fixed Rate

Coupon	FNMA 15			FNMA 30			FHLMC 15		
	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4	5.89	4.62	\$24,650,928,817	5.12	4.14	\$539,635,528	6.29	4.55	\$37,829,961,254
4.5	7.51	5.62	\$97,259,749,812	5.67	5.17	\$38,809,579,831	7.21	5.36	\$122,823,043,311
5	9.45	7.25	\$101,667,203,413	7.47	6.82	\$325,980,550,011	8.65	6.57	\$123,274,571,632
5.5	10.3	7.68	\$45,208,367,787	9.53	8.38	\$455,360,049,991	10.29	6.68	\$60,473,635,034
6	12.61	10.72	\$24,701,301,922	11.72	12.94	\$279,834,062,688	12.2	9.06	\$29,032,591,416
6.5	14.83	12.12	\$6,280,383,326	16.02	22.06	\$104,177,608,829	15.28	11.51	\$6,976,851,449
7	15.8	14.98	\$1,914,144,911	19.84	23.33	\$27,382,244,969	18.06	13.39	\$2,126,493,275
7.5	17.83	17.19	\$680,264,071	21.26	25.88	\$7,176,041,326	19.36	15.75	\$861,421,078
8	18.31	19.18	\$232,455,075	22.03	29.08	\$3,198,769,467	20.07	18.63	\$270,447,401
avg	9.1	7.0		10.2	10.5		8.7	6.3	
diff		-2.1			0.3			-2.3	

Coupon	FHLMC 30			GNMA 15			GNMA 30		
	Actual	Model	Current Balance	Actual	Model	Current	Actual	Model	Current Balance
4	3.26	4.18	\$526,793,562	8.4	8.41	\$983,282,863	16.03	6.51	\$1,905,812,398
4.5	5.18	5.19	\$43,527,164,310	9.14	8.92	\$3,507,857,864	11.94	9.17	\$8,728,745,921
5	7.01	6.57	\$358,535,512,161	10.98	9.85	\$5,793,064,980	10.35	11.33	\$63,536,302,092
5.5	8.88	7.66	\$440,270,171,709	11.87	9.98	\$2,576,271,291	11.33	12.85	\$108,616,399,923
6	11.29	9.41	\$279,735,488,921	12.77	11.07	\$1,773,993,490	12.11	16.19	\$78,238,011,551
6.5	16.34	18.08	\$99,635,410,683	16.15	12.47	\$698,629,206	17.51	20.4	\$32,125,957,372
7	18.81	21.42	\$20,180,648,294	17.38	12.66	\$386,466,116	18.64	21.48	\$11,780,007,952
7.5	17.38	23.29	\$6,137,549,860	18.72	12.58	\$145,066,834	16.84	20.95	\$4,440,783,719
8	15.59	27.45	\$2,839,805,269	16	12.95	\$75,782,913	16.96	21.28	\$2,653,137,643
avg	9.6	8.8		11.2	9.9		12.4	14.5	
diff		-0.7			-1.3			2.1	

5.2b Hybrid ARM

	FHLMC 3/1			FHLMC 5/1		
Coupon	Actual	Model	Current Balance	Actual	Model	Current Balance
3.25	18.46	19.71	\$53,630,975	-	-	-
3.5	26.01	24.31	\$68,102,848	-	-	-
3.75	29.14	23.06	\$100,252,185	10.55	13.76	\$90,408,326
4	41.24	32.1	\$62,903,088	13.01	13.75	\$73,474,969
4.25	33.79	31.31	\$28,429,704	13.84	13.96	\$105,961,193
4.5	26.23	24.85	\$34,069,601	14.66	14.81	\$122,471,964
4.75	30.27	26.61	\$45,239,510	15.08	15.88	\$128,458,740
5	23.48	26.97	\$33,319,312	15.38	17.82	\$121,892,832
5.25	17.26	27.03	\$21,564,268	15.71	19.49	\$138,670,845
5.5	22.91	31.85	\$17,915,077	14.45	21.38	\$60,327,327
5.75	21.66	29.77	\$12,369,308	15.44	21.44	\$47,040,562
6	20.87	28.98	\$14,628,051	18.25	20.85	\$40,902,759
avg	27.7	26.1	\$492,423,927	14.5	16.8	\$929,609,517
diff		-1.6			2.3	

	FHLMC 7/1			FHLMC 10/1		
Coupon	Actual	Model	Current Balance	Actual	Model	Current Balance
3.25	-	-	-	-	-	-
3.5	-	-	-	-	-	-
3.75	-	-	-	-	-	-
4	-	-	-	-	-	-
4.25	-	-	-	-	-	-
4.5	9.85	8.7	\$39,621,594	-	-	-
4.75	11.73	9.88	\$59,303,918	-	-	-
5	11.11	11.41	\$100,100,672	8.83	8.41	\$91,369,194
5.25	10.66	12.97	\$83,078,026	7.74	10.22	\$57,271,017
5.5	11.66	13.06	\$40,392,170	8.76	10.33	\$72,382,897
5.75	10.81	13.82	\$26,372,104	8.14	9.39	\$35,100,329
6	10.26	11.58	\$20,497,260	7.62	9.55	\$53,811,544
avg	11.0	11.6	\$369,365,744	8.3	9.5	\$309,934,981
diff		0.6			1.2	

The decreases in February were in line with the 5-10% drops we forecast last month, as we reach the end of the seasonal slow down in prepayments. Now that we enter into spring, we should see noticeable pick-ups in prepayments, as seasonal home sales pick up, and we see the response of the 25 bp drop in rates that we saw during the March refi window. Look for increases in prepayments in both fixed and adjustable rate collateral, with fixed 30-yr speeds jumping up by around 15%, with higher number expected in the mid-range premium area (6.5's to 7.5's). ARM's could increase anywhere from 10% to 15% depending on the collateral.

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.



The information contained in The Pipeline is believed to be reliable, but its accuracy and completeness are not guaranteed. All expressions of opinion are subject to change without notice. Pipeline is provided for informational purposes only and is not a solicitation, endorsement or a recommendation for purchase or sale of any particular security. An affiliate of Andrew Davidson & Co., Inc. engages in trading activities in securities that may be the same or similar to those discussed in this publication. All Rights Reserved.