

## Prepayment Update – Jan. '08

### A Look at Non-Agency Mortgage Prepayment Speeds

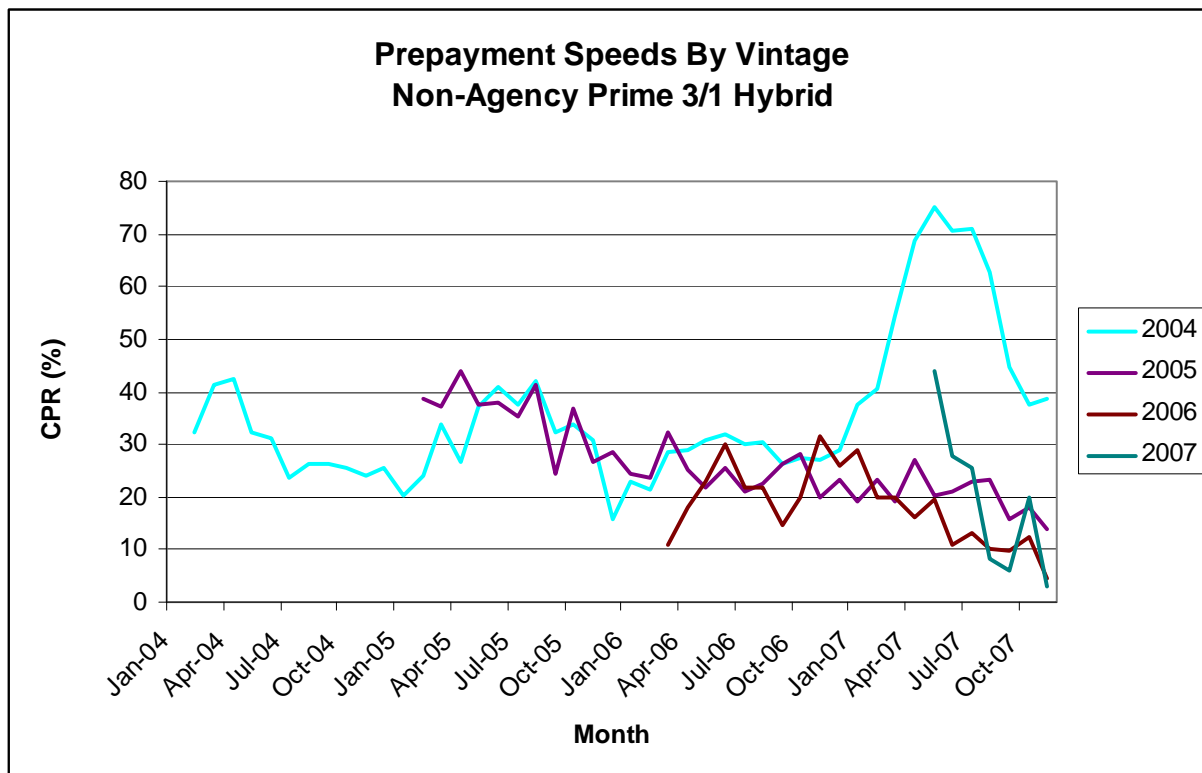
By Sanjeeban Chatterjee

In this article we look at prepayment speeds for non-agency loans to study some of the effects that we observed in 2007. It is common knowledge that prepayment speeds for prime and sub-prime loans have slowed down. This article shows the magnitude of the slowdown and some interesting trends.

We obtained data for this study from Intex. The prepayment speeds indicate total terminations, which include voluntary and involuntary prepayments. Prepayments are recorded whenever the balance becomes zero regardless of the reason.

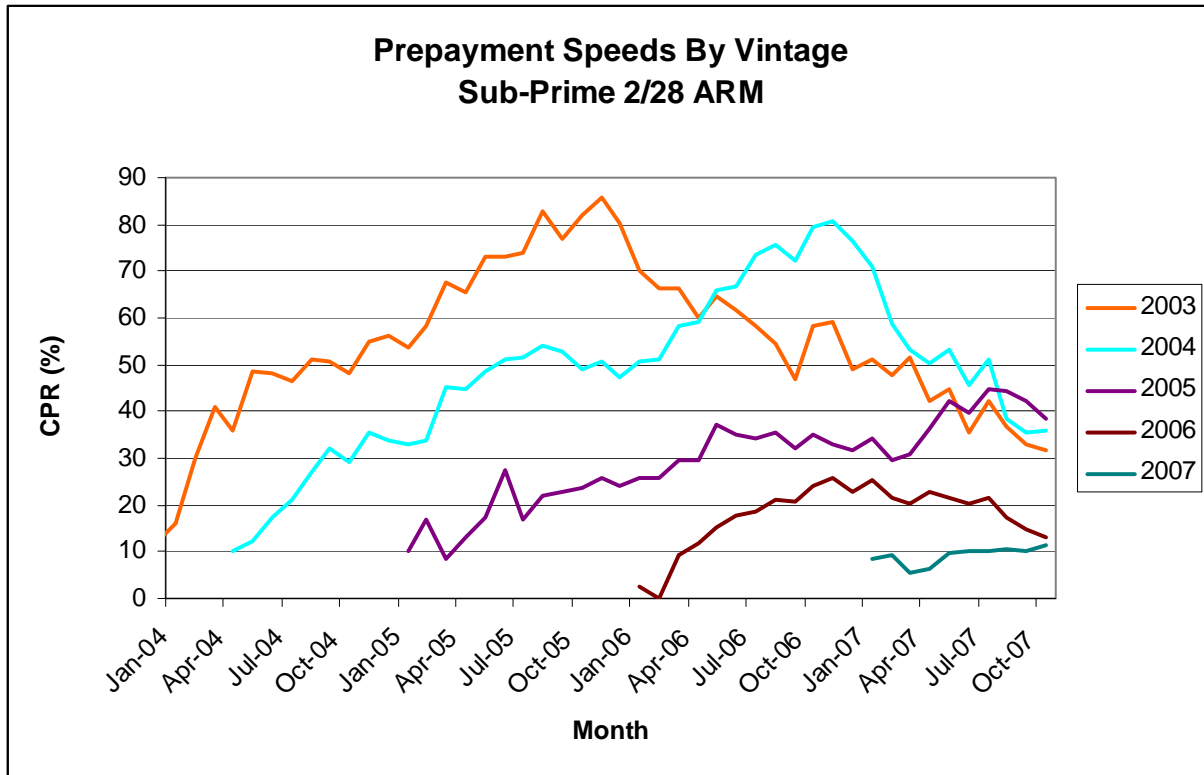
In Chart 1 below we see that speeds for non-agency prime 3/1 hybrids were flat during most of 2006. The 2004, 2005 and 2006 vintages all prepaid in the 20 – 30 CPR range. However, speeds started declining from about March 2007 and were in the 10 – 20 CPR range for pretty much all of 2007. Also, the peak reset speed for the 2004 vintage was in the 80 CPR range in mid-2007. This shows that borrowers of this vintage still had better opportunities of refinancing into other loans during reset. This was probably because these are borrowers with good credit, and they had some equity built into their homes.

Chart 1



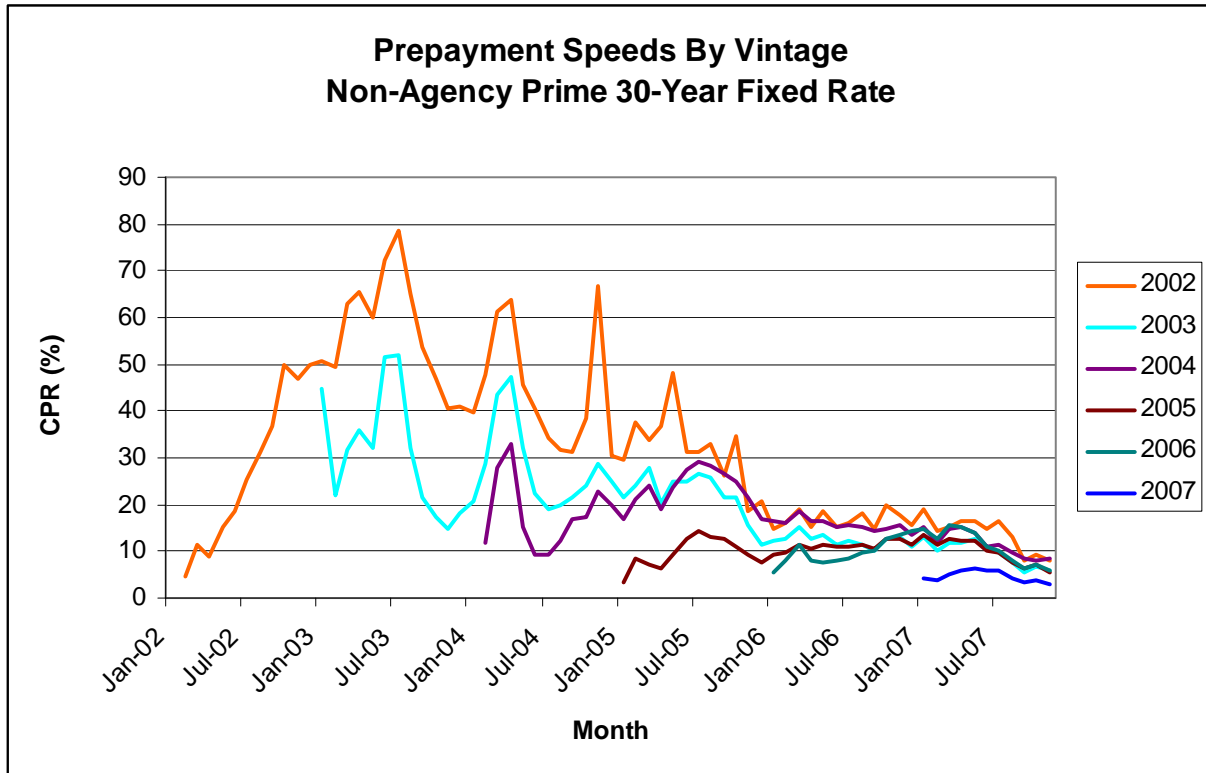
We see a similar trend for sub-prime ARMs. Chart 2 below shows that sub-prime 2/28 ARM speeds stayed flat through the second half of 2006 (other than the 2004 vintage which reset in 2006) and started declining from about July 2007. However, the interesting thing here is that unlike prime hybrids, the sub-prime ARM prepayment speeds are dependent on vintage. Older vintages have been prepaying faster than newer vintages. The chart also shows the peak reset speeds for the 2003 and 2004 vintages, which occurred in 2005 and 2006, respectively.

**Chart 2**



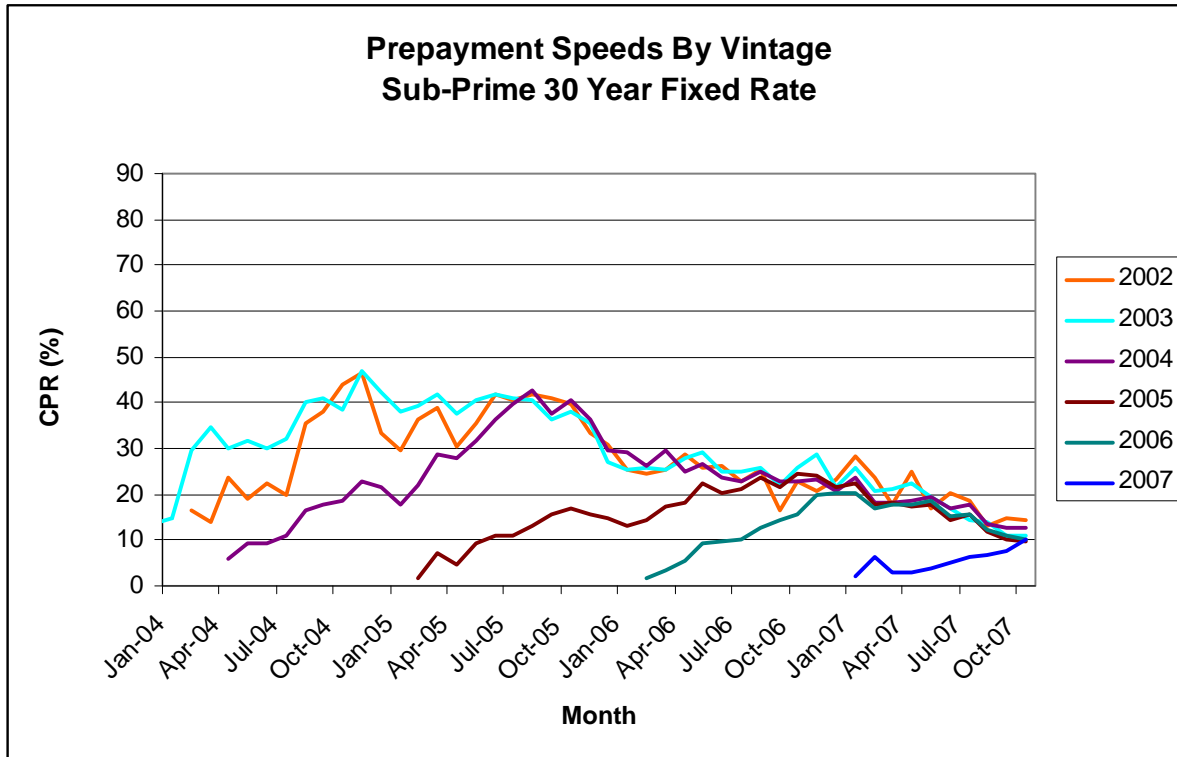
For the non-agency prime 30-year fixed rate sector we see that speeds have remained fairly consistent (in the 10 -20 CPR range) starting from about January 2006 through the middle of 2007, with the older vintages prepaying slightly faster than the newer vintages. However, speeds slowed down from about July 2007 for all vintages (as shown in Chart 3). This is probably because of reduced refinancing opportunities available to jumbo borrowers in the current market.

**Chart 3**



For sub-prime 30-year fixed rate loans, we see that the 2002, 2003, 2004 vintages prepaid in the 20 – 30 CPR range starting from early 2006 through the middle of 2007. From about July 2007, speeds for all vintages declined to the mid to low teens (Chart 4).

**Chart 4**



In last month's article we looked at aging curves for sub-prime mortgages. In this article we looked at prepayment speeds by date and how things changed in 2006 and 2007. In upcoming articles we will look at not only how speeds are trending over time but also at the effect of other variables like balance and LTV on prepayment speeds.

These are very interesting times and the industry is dealing with the events of 2007. At Andrew Davidson and Co., Inc. we are watching these events closely so that we can study the trends and make model updates and tuning recommendations accordingly.



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