

Model Performance

Prepayment Analysis

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As expected, prepayments dropped again in October, although the decreases were not as drastic as we anticipated. FNMA 30-year discounts declined by 10% and 6.5% for 4.5's and 5.0's, respectively. Cuspy premiums dropped about 5% and deep premiums dropped about 5-6%. GNMA collateral also waned, and for the discounts the decrease was a bit stronger than the FNMA's; 5.0's and 5.5's fell by 11% and 10.5%, respectively. Actual pool CPR speeds of selected coupon buckets, along with corresponding model forecasts are shown in the table below.

Coupon	FNMA 15		FNMA 30		GNMA 15		GNMA 30	
	Actual	Model	Actual	Model	Actual	Model	Actual	Model
4.5	10.67	9.17	8.46	4.21	12.84	8.25	13.98	9.56
5.0	14.14	13.38	11.76	8.02	15.77	13.91	15.05	14.83
5.5	17.37	17.73	18.03	19.37	17.67	18.52	20.09	25.38
6.0	20.58	20.3	27.54	27.87	20.05	18.67	28.32	32.28
6.5	21.23	21.69	31.13	29.2	20.46	19.3	32.1	30.39
7.0	22.37	24.16	31.59	30.91	21.25	20.13	31.95	32.75
7.5	21.99	26.73	30.8	33.81	21.42	22.56	30.67	36.55

The results of the Andrew Davidson & Co., Inc. Prepayment Model v4.3.4a for October show that the model anticipated a little steeper of a drop in prepayment speeds seen this month. Across all model types and coupons, the model was slightly slower than the actual prepayment speeds for FNMA 15's by a balance weighted average of just -0.8 CPR across coupons. For FNMA 30's, the model was off by a balance-weighted average of -0.9 CPR, due mostly to discounts. The GNMA 30-year model was actually fast with a balance-weighted average error this month of 2.5 CPR and was a bit slow on discounts. Lastly, the GNMA 15-year model performed reasonably well, being slow by a balance weighted average of -1.9 CPR across coupon buckets, again mostly due to discounts.

Shifting to the new version 5.1c prepayment model, we can see that the model performed well across all collateral types, with speeds coming in slightly slow this month.

Coupon	FNMA 15		FNMA 30		GNMA 15		GNMA 30	
	Actual	Model	Actual	Model	Actual	Model	Actual	Model
4.5	10.67	9.32	8.46	8.67	12.84	12.3	13.98	12.41
5.0	14.14	11.55	11.76	11.28	15.77	13.47	15.05	14.63
5.5	17.37	15.77	18.03	15.56	17.67	17.68	20.09	21.27
6.0	20.58	18.66	27.54	25.71	20.05	19.81	28.32	28.92
6.5	21.23	20.24	31.13	29.77	20.46	20.09	32.1	32.36
7.0	22.37	21.64	31.59	32.13	21.25	19.86	31.95	31.08
7.5	21.99	23.05	30.8	34.63	21.42	19.33	30.67	28.91

The model performed the best for the GNMA 30-year pools, off by a balance-weighted average of just 0.3 CPR— very close to actuals for the tricky discount coupons. The GNMA 15-year model also performed reasonably well, off by a balance weighted average of -1.2 CPR across coupons, mostly in the premium sector. Both FNMA models performed well. The FNMA 15-year model was slow by a balance-weighted average of -1.9 CPR, and the FNMA 30-yr model only off by a balance-weighted average of -1.9 CPR across coupons. Version 5.1c continues to outperform version 4.3.4a for the lower coupon GNMA discounts that have been somewhat difficult to capture over the last year.

The October speeds did not drop as much as we anticipated, but that sharp drop is definitely coming. Mortgage rates have backed up significantly from the beginning of September through the end of November by about 70 basis points, so, combined with the steady drop in seasonal home sales into the winter months, we should see decreases in prepayments over the next few months, barring any large drop in rates. For November, look for a roughly 10% drop in discounts, an 8-10% drop in cuspy premiums in the FNMA collateral and a 7%-10% dive in GNMA discounts and cuspy premiums. Even larger drops are expected heading into December, with speeds falling by about 12-15% across the different collateral.



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