

## AD&Co. Update

### New Non-Agency Fixed Rate Model Now Available (v5.1d)

by Rob Landauer

We are pleased to announce the availability of our new fixed rate non-agency 15 and 30 year prepayment model. The new model is integrated into the latest version of our library, v5.1d, which is now available from AD&Co. upon request. This new model is based upon jumbo prime data (non-conforming due to size) and replaces the existing pool and loan level whole loan models that were used in v5.1c and earlier versions of the AD&Co. MBS Prepayment Model. To obtain a copy of the new library, please contact Ilda directly by email or phone.

This release continues the rollout of our new unified generation of prepayment models that utilize the active-passive form of burnout and can consider enhanced pool attributes like loan-to-value and loan size. The previous version, v5.1c (released 10/05), updated all of the agency fixed rate models. With this release, all of the fixed rate collateral types, agency and non-agency, have now been re-estimated and refit into our new functional form. Over the next several months, we will be providing new models for ARMs and hybrids for both the agency and non-agency sectors. Please keep an eye on this column for announcements about the availability of new releases.

The following sections summarize and compare the performance of the new non-agency model (New) to the old whole loan model (Old) and to the most recent release of the conventional model (Conventional) for both the 15 and 30 year maturities. A comparison of the 15 year model is first followed by the 30 year model. Within the next few weeks, we will release an issue of *Quantitative Perspectives* which will provide additional details about this model.

### 15 Year Model Comparison

The new Non-Agency 15-Year Fixed Rate Model (NA15F) is slower than the current model for jumbos (whole loan model) but faster than the Conventional 15 Year Fixed Rate Model.

All valuation results were obtained using an Age of 1 Month and a constant OAS of 10 basis points. Valuation results were obtained for (a) 27 May 2005 when the Fannie 15 Year Current Coupon rate was 4.703 and (b) 20 January 2006 when the Fannie 15 Year Current Coupon rate was 5.153.

**Valuation Results (Pricing Date May 27, 2005; FNMA 15 Current Coupon = 4.703)**

**New Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	96.23	6.2	5.9	4.4	-0.7
4.5	10	98.31	4.9	11.2	3.8	-1.1
5	10	100.07	3.8	17.4	3.1	-1.5
5.5	10	101.34	3.0	24.5	2.0	-2.1
6	10	102.35	2.0	35.9	1.2	-1.9
6.5	10	103.05	1.7	43.4	0.8	-1.3
7	10	103.62	1.5	47.2	0.7	-0.8
7.5	10	104.25	1.5	47.4	0.7	-1.0

**Old Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	96.44	5.4	9.0	4.4	-0.7
4.5	10	98.51	4.5	13.1	3.6	-1.3
5	10	100.14	2.9	25.1	2.6	-1.9
5.5	10	101.22	2.2	33.4	1.7	-1.6
6	10	101.78	1.4	48.3	0.9	-0.9
6.5	10	102.07	1.1	59.5	0.7	-0.2
7	10	102.30	0.9	65.3	0.7	0.4
7.5	10	102.67	0.9	65.4	0.8	0.1

**Conventional 15 Year Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	96.55	5.9	6.9	4.4	-0.6
4.5	10	98.64	5.6	8.2	3.9	-1.1
5	10	100.45	5.1	10.7	3.1	-1.8
5.5	10	102.36	4.1	15.7	2.7	-1.3
6	10	104.84	4.1	16.1	3.2	-0.5
6.5	10	106.44	3.7	18.4	2.9	-0.4
7	10	107.93	3.5	20.2	2.7	-0.2
7.5	10	109.36	3.4	21.3	2.6	0.0

**Valuation Results (Pricing Date January 20, 2006; FNMA 15 Current Coupon = 5.153)**

**New Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	94.11	6.5	5.0	4.5	-0.3
4.5	10	96.23	6.1	6.5	4.0	-0.6
5	10	98.15	4.7	12.3	3.5	-1.1
5.5	10	99.74	3.7	18.4	2.8	-1.5
6	10	100.86	2.8	26.8	1.8	-1.8
6.5	10	101.79	2.0	37.6	1.1	-1.3
7	10	102.48	1.6	44.3	0.8	-1.1
7.5	10	103.07	1.5	47.8	0.7	-0.7

**Old Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	94.28	5.9	6.9	4.6	-0.6
4.5	10	96.47	5.4	9.3	4.1	-1.2
5	10	98.36	4.3	14.5	3.3	-1.1
5.5	10	99.85	2.9	25.5	2.4	-1.5
6	10	100.86	2.2	33.5	1.6	-1.7
6.5	10	101.42	1.5	47.8	0.9	-0.6
7	10	101.75	1.1	58.7	0.7	-0.2
7.5	10	102.00	1.0	65.2	0.7	0.4

**Conventional 15 Year Model**

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4	10	94.43	6.2	6.0	4.5	-0.2
4.5	10	96.57	5.9	7.2	4.1	-0.6
5	10	98.50	5.6	8.4	3.5	-0.9
5.5	10	100.15	4.9	11.7	2.8	-1.3
6	10	102.07	4.1	16.0	2.6	-1.1
6.5	10	104.52	4.1	16.3	3.0	-0.4
7	10	106.06	3.8	18.5	2.8	-0.2
7.5	10	107.52	3.5	20.2	2.7	-0.2

### 30 Year Model Comparison

The new Non-Agency 30 Year Fixed Rate Model (NA30F) is slower than the current model for jumbos but faster than the Conventional 30 Year Fixed Rate Model.

All valuation results were obtained using an Age of 1 Month and a constant OAS of 10 basis points. Valuation results were obtained for (a) 27 May 2005 when the Fannie 30 Year Current Coupon rate was 5.132 and (b) 20 January 2006 when the Fannie 30 Year Current Coupon rate was 5.592.

#### Valuation Results (Pricing Date May 27, 2005; FNMA 30 Current Coupon = 5.132)

##### New Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	96.28	7.3	10.4	5.1	-1.0
5	10	98.69	5.0	16.4	4.1	-1.6
5.5	10	100.63	3.3	24.9	3.0	-2.4
6	10	102.11	2.2	36.8	2.1	-1.5
6.5	10	103.15	1.7	44.0	1.6	-0.9
7	10	104.01	1.6	46.1	1.5	-0.2
7.5	10	104.82	1.6	46.0	1.4	0.0
8	10	105.56	1.6	46.2	1.4	0.0

##### Old Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	96.41	7.8	9.6	5.3	-1.1
5	10	98.88	4.8	17.1	4.2	-1.9
5.5	10	100.74	2.8	28.8	2.8	-2.9
6	10	101.83	1.8	42.6	1.6	-1.6
6.5	10	102.44	1.4	51.9	1.0	-0.4
7	10	102.88	1.2	57.8	0.9	0.4
7.5	10	103.35	1.2	58.0	1.0	0.1
8	10	103.85	1.2	58.0	1.0	0.2

### Conventional 30 Year Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	96.34	7.8	9.5	5.2	-1.2
5	10	98.79	6.5	12.1	4.2	-1.7
5.5	10	100.72	4.2	20.0	3.0	-2.6
6	10	102.56	3.0	27.9	2.2	-1.8
6.5	10	104.14	2.5	32.2	1.9	-0.9
7	10	105.04	2.1	37.6	1.5	-0.5
7.5	10	105.81	2.0	39.7	1.4	-0.1
8	10	106.54	1.9	40.3	1.3	0.1

### Valuation Results (Pricing Date January 20, 2006; FNMA 30 Current Coupon = 5.592)

#### New Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	94.08	9.7	6.7	5.2	-1.0
5	10	96.58	6.8	11.6	4.5	-1.3
5.5	10	98.72	4.8	17.3	3.6	-1.6
6	10	100.42	3.2	26.3	2.7	-1.9
6.5	10	101.78	2.1	37.3	1.9	-1.1
7	10	102.77	1.8	43.8	1.5	-0.4
7.5	10	103.63	1.7	45.5	1.4	-0.2
8	10	104.43	1.7	45.6	1.4	0.0

#### Old Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	94.08	9.0	7.7	5.6	-0.7
5	10	96.76	7.7	9.8	4.7	-1.9
5.5	10	98.93	4.7	17.7	3.6	-1.6
6	10	100.56	2.9	28.9	2.5	-2.3
6.5	10	101.55	1.8	42.1	1.5	-1.4
7	10	102.13	1.4	51.0	1.0	-0.4
7.5	10	102.55	1.2	57.7	0.9	0.5
8	10	103.02	1.2	58.0	1.0	0.2

## Conventional 30 Year Model

Net Coupon	OAS	Price	WAL	Equivalent CPR	Effective Duration	Effective Convexity
4.5	10	94.13	9.0	7.7	5.3	-0.8
5	10	96.70	7.6	10.0	4.6	-1.3
5.5	10	98.87	6.5	12.5	3.6	-1.6
6	10	100.56	4.0	20.9	2.5	-1.7
6.5	10	102.32	3.0	27.6	2.1	-1.5
7	10	103.72	2.6	32.2	1.8	-0.5
7.5	10	104.58	2.1	37.4	1.5	-0.4
8	10	105.33	2.0	39.6	1.4	-0.1



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