

Model Performance – January '06

Prepayment Analysis

by Dan Szakallas

Prepayments decreased from November to December as we expected, as a combination of the winter decline trend and steadily increasing mortgage rates dampened prepayments by about 10-15% across collateral and coupons. Prepayments for FNMA 30-year pools fell about 12-16% in the 5.0 to 6.0 coupon range. FHLMC 30-year pools followed that trend as well, though for the same coupon groups the drops were about 2% larger. GNMA 30-year pools showed similar drops compared to their conventional counterparts, posting about a 8-10% decrease in the 5.0 to 6.0 coupon range. One interesting feature of December prepayments was that for FHLMC and FNMA 4.5's, the drop was considerably higher for FNMA, 28% compared to 3% for FHLMC. Drops in prepayment speeds for 15-year pools were very similar to that of the 30-years, with FHLMC decreases being slightly larger than FNMA speeds. We show actual pool CPR speeds of selected coupon buckets and corresponding model forecasts in the table below.

v4.3.4a

Coupon	FNMA 15			FNMA 30			FHLMC 15		
	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4.0	7.2	7.2	\$28,455,445,556	3.2	3.5	\$551,658,453	7.5	7.3	\$37,725,574,051
4.5	8.9	8.0	\$113,122,959,828	6.5	3.1	\$42,033,336,109	8.7	7.9	\$112,220,007,631
5.0	11.4	10.5	\$116,054,310,058	8.7	3.6	\$336,152,779,889	10.9	9.9	\$94,937,594,007
5.5	14.3	13.5	\$41,576,226,769	13.2	9.8	\$420,094,915,618	14.0	12.8	\$29,731,430,657
6.0	18.5	17.4	\$21,774,075,250	19.5	17.9	\$158,619,758,996	17.8	16.3	\$17,648,936,185
6.5	20.4	19.6	\$8,609,907,084	26.5	20.3	\$61,812,716,191	19.5	18.7	\$6,871,281,904
7.0	21.7	21.5	\$3,010,826,929	29.1	24.4	\$24,185,192,060	19.7	20.8	\$2,484,441,297
7.5	22.3	24.0	\$1,181,958,435	29.0	29.1	\$8,525,427,701	20.3	22.8	\$1,016,830,234
8.0	23.1	26.6	\$427,255,188	29.2	31.7	\$3,932,820,308	23.7	25.2	\$360,478,319

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	FHLMC 30			GNMA 15			GNMA 30		
Coupon	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4.0	5.5	3.4	\$893,840,923	11.0	5.2	\$1,195,989,546	17.3	3.2	\$2,741,488,281
4.5	5.8	2.8	\$42,520,333,622	12.4	5.7	\$4,314,122,982	13.0	5.0	\$10,051,282,432
5.0	7.9	3.2	\$275,629,053,310	14.0	7.4	\$7,081,040,556	11.7	9.8	\$68,401,468,067
5.5	11.9	7.1	\$285,407,015,460	16.2	12.8	\$2,821,678,948	16.1	14.8	\$107,292,562,543
6.0	19.0	15.8	\$89,382,616,827	20.1	13.5	\$1,950,981,656	23.4	23.6	\$55,772,639,302
6.5	23.3	17.4	\$44,592,462,960	20.6	14.0	\$1,015,625,966	27.8	22.3	\$25,757,925,369
7.0	25.1	20.9	\$15,067,632,945	19.2	15.7	\$650,309,753	28.0	23.2	\$13,984,314,902
7.5	24.4	26.0	\$6,029,910,782	21.7	18.3	\$255,563,933	28.4	30.6	\$5,932,956,556
8.0	24.0	30.8	\$2,975,479,049	21.0	21.6	\$131,158,673	29.0	34.5	\$3,593,481,672

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	FNMA 15			FNMA 30			FHLMC 15		
Coupon	Actual	Model	Current Balance	Actual	Model	Current Balance	Actual	Model	Current Balance
4.0	7.2	5.5	\$28,455,445,556	3.2	5.6	\$551,658,453	7.5	5.6	\$37,725,574,051
4.5	8.9	7.0	\$113,122,959,828	6.5	6.2	\$42,033,336,109	8.7	6.7	\$112,220,007,631
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	FHLMC 30			GNMA 15			GNMA 30		
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Speeds dropped once again in December as anticipated. The last few months have seen seasonal decreases in home sales and steadily climbing interest rates, leading to very low prepayment speeds that have not existed since 2001. However, we can now see some increases ahead. Not only is March on the horizon, where prepayments typically emerge from the winter slumber, but we have also seen a recent decrease in mortgage interest rates after peaking during November. Prepayments should drop again for the month of January, but only by about 5-10% for FNMA's and FHLMC's, and perhaps even less for GNMA's. By February, we can look for some increases across coupons as the seasonal trend

begins its upward climb, and as the attractive interest rates of the first 3 weeks of January begin to show.



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