

ADCo. Update

It's Our Treat—Not a Trick—v5.1f

by Rob Landauer

Last month we announced the availability of a new version of our prepayment model, v5.2a, which provides a new suite of ARM/hybrid models for agency, jumbo prime and sub-prime loans. This month we fill in some gaps to the fixed rate loan types in the v5.1 prepayment model series with the release of v5.1f.

Please keep in mind that the new suite of ARM models is only available in v5.2a. This version can currently only be used through AD&Co's OAS Spreadsheet, and not yet through any third party vendor system. V5.1f, however, can be utilized through any vendor that has integrated the v5.1 application interface, including Derivative Solutions, Polypaths and QRM. As we mentioned last month, announcements about vendors linking to v5.2a will be made in this space as the integration work is completed.

All changes made to v5.1f are included in v5.2a. V5.1f replaces v5.1e and provides the following enhancements:

- 1) The fixed rate Jumbo Prime Prepayment model (non-conforming due to size) has been re-calibrated so that seasoned loans will prepay more slowly than in v5.1e and lower. Also, the sensitivity to original loan size and original loan-to-value (LTV) have been adjusted through the model-calculated risk multipliers that control the amount of prepayments due to refi, cashout refinancing and turnover. In addition, base turnover speeds have been lowered slightly, so that option costs are now slightly higher.
- 2) The fixed rate Sub-Prime/HEL (non-conforming due to credit) model has new risk multipliers for original loan size and original loan-to-value.
- 3) On the agency side, v5.1f provides access to our newly refit and recalibrated conventional relocation loan prepayment model that utilizes data through June of 2006. This model also now employs the active-passive decomposition form of burnout.
- 4) Any pool or CMO deal that is backed by the 15 or 30 year fixed ALT-A classification will now be mapped to the 15 or 30 year FNMA fixed loan type, respectively. The variability in the definition of ALT-A has made it increasingly difficult for AD&Co to provide an ALT-A prepayment model that captures the prepayment nuances of all the disparate loan types included in this category. The data shows that the FNMA model best captures the preponderance of the prepayment experience, while the inclusion of enhanced characteristics like LTV, spread-at-origination, and FICO score will fine-tune the prepayment forecast. The combination of the base prepayment forecast from the FNMA model and the tuning to the risk multipliers from the enhanced data should effectively capture the prepayment profile of the ALT-A loan type.

5) For Agency hybrids, prepayments after the initial reset will now use a constant vector of prepayments with seasonality that is sensitive to the three month rolling average of interest rates. For example, as rates decline, the constant vector of speeds is accelerated to reflect the increased refinancability of these loans. In previous versions, the post reset prepayment speed was hard-coded based on the time to initial reset. Please note that in v5.1f, this change has been made to the old version of the hybrid model, not the refit and recalibrated version found in v5.2a and more fully discussed in last month's Pipeline.

For access to v5.1f, please do not hesitate to contact Laura (laura@ad-co.com) or Suzanne (suzanne@ad-co.com).



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