Andrew Davidson & Co., Inc. — the Pipeline

Model Performance

Prepayments Expected to Increase

by Dan Szakallas

As expected, prepayments spanning both fixed-rate and ARM collateral fell across the board from December to January. Fixed rate 30-year collateral fell on balance weighted average of 5.0% for FNMA's, and by 7.5% for FHLMC's. The magnitude of the drops was about the same in the 15-yr collateral coupon stack for agencies as well. For GNMA's, we saw a balance weighted decrease of 7.0% for 15-yr collateral, and almost 9.0% for 30-year collateral. Looking at FHLMC hybrid ARM data, we saw balance weighted drops between 7%-13% in Libor and Treasury indexed 3/1's 5/1's and 7/1's (all during their initial reset period), but interestingly we saw an increase of about 1% for 10/1's.

v5.2b Fixed Rate

	FNMA 15			FNMA 30			FHLMC 15		
Coupon	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**
4	6.19	4.54	$24,908,646,857	3.5	4.32	$542,931,618	6.64	4.47	$38,156,720,721
4.5	7.76	5.55	$98,360,132,918	5.86	5.42	$38,949,238,507	7.48	5.3	$123,838,078,959
5	9.8	7.16	$102,508,334,860	7.73	7.19	$324,535,242,563	8.78	6.5	$123,489,289,962
5.5	11.16	7.68	$44,779,752,856	10.65	8.87	$446,642,308,820	10.25	6.59	$59,246,402,813
6	14.09	10.65	$24,853,450,327	14.38	13.1	$273,794,746,774	13.21	9	$28,869,571,861
6.5	17.92	12.1	$6,407,686,594	17.62	22.48	$103,696,105,451	14.56	11.59	$7,128,502,669
7	17.84	14.95	$1,975,370,119	24.32	22.99	$27,458,161,687	17.41	13.39	$2,206,077,494
7.5	19.2	17.17	$705,543,487	22	26.14	$7,230,499,241	17.73	15.72	$895,796,431
8	18.84	19.1	$242,026,312	21.46	29.14	$3,258,766,655	22.18	18.44	$281,784,559
	FHLMC 30			**GNMA 15**			**GNMA 30**		
Coupon	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**
4	3.27	4.38	$527,758,926	7.77	7.15	$996,171,975	16.79	6.02	$1,932,515,478
4.5	5.38	5.45	$43,453,430,312	10.1	7.64	$3,555,421,517	11.56	8.5	$8,815,341,749
5	7.21	6.91	$357,994,058,890	11.08	8.53	$5,873,648,509	9.94	10.52	$63,821,664,636
5.5	9.32	8.13	$424,369,786,087	12.01	8.72	$2,592,131,767	11.15	11.99	$107,968,954,100
6	13.9	9.01	$271,773,266,507	12.57	9.99	$1,781,282,688	12.57	15.5	$76,422,092,128
6.5	18.72	17.65	$98,419,925,421	16.67	11.33	$713,323,168	19.25	19.38	$31,919,930,755
7	20.65	21.62	$20,187,926,364	16.89	11.48	$402,196,572	18.82	20.48	$11,900,149,799
7.5	16.41	23.75	$6,227,271,158	16.68	11.45	$151,428,682	17.3	20.24	$4,504,321,768
8	14.11	27.93	$2,887,926,290	16.53	11.82	$78,778,422	18.21	20.56	$2,703,241,319

5.2b Hybrid ARMs

	FHLMC 3/1			FHLMC 5/1		
Coupon	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**
3.25	9.84	17.68	$163,963,395	-	-	-
3.5	21.1	18.99	$489,800,066	-	-	-
3.75	28.43	25.84	$911,045,994	17.63	12.75	$457,104,744
4	37.11	25.86	$973,496,696	11.93	12.75	$1,191,405,628
4.25	36.48	30.6	$812,158,572	13	13.01	$3,116,469,638
4.5	27.49	26	$1,469,188,430	14.54	13.86	$5,842,165,091
4.75	25.43	25.07	$1,870,143,072	14.81	14.94	$10,303,121,302
5	24.09	25.74	$1,228,914,970	15.98	17.01	$10,618,233,820
5.25	21.44	25.93	$724,388,236	15.93	18.69	$12,676,994,995
5.5	27.8	30.38	$523,210,756	16.21	20.84	$4,726,188,097
5.75	30.83	28.05	$237,019,099	17.81	21.09	$3,077,639,211
6	24.02	27.81	$323,315,574	27.8	21.13	$2,382,645,722

	FHLMC 7/1			FHLMC 10/1		
Coupon	**Actual**	**Model**	**Current Balance**	**Actual**	**Model**	**Current Balance**
3.25	-	-	-	-	-	-
3.5	-	-	-	-	-	-
3.75	-	-	-	-	-	-
4	-	-	-	-	-	-
4.25	-	-	-	-	-	-
4.5	10.53	8.18	$560,458,381	-	-	-
4.75	8.77	9.43	$2,040,476,009	-	-	-
5	11.52	10.95	$5,871,682,729	10.34	8.28	$790,619,453
5.25	12.44	12.52	$6,269,714,079	9.75	10.27	$1,720,951,477
5.5	12.28	12.6	$2,789,632,920	9.23	10.1	$2,939,016,235
5.75	11.86	13.2	$1,466,202,959	7.18	9.02	$944,556,994
6	9.11	10.49	$1,071,758,368	9.36	9.47	$765,936,973

The decreases in prepayments from December to January were widely expected, as January is typically the slowest month for refinancing activity. We usually attribute this to the so called "holiday effect," which describes the lack of focus borrowers have on their loans due to the Christmas and New Year's holidays. Also, seasonal home sales are at their lowest because January is the middle of winter for much of the Midwest and East Coast.

Looking forward to February's prepayments, we expect to see 5%-10% declines in fixed rate collateral due to a small rise in mortgage rates and the shortened month. In March, however, we anticipate big spikes in prepayments. As the seasonal pick-up in home sales accelerates, we gain a couple more business days, and we see the effects of the 20bp drop in mortgage rate that we saw throughout February.

Clients may go to http://dynamic.ad-co.com/performance/ to link directly to the performance reports used to generate these numbers and analyze the data in more detail.

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