

Prepayment Update

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2007 Conference Highlights

At AD&Co.'s 15th Annual Conference we highlighted the work that we have done to enhance the suite of agency and non-agency prepayment models, especially ARMs. On the agency side, we now have models for both Fannie and Freddie hybrids. We decided to have separate models for the two agencies to account for the differences in prepayment speeds between them. The AD&Co. suite now also includes a model for Option ARMs. The latest ARM models have been fine-tuned so that they perform better for recent time periods and accurately capture the peak speeds around reset.

On the non-agency side we now have models for prime 3/1, 5/1, 7/1 and 10/1 hybrids, and for sub-prime 2/28, 3/27 and 5/25. Going forward AD&Co. will use the OFHEO home price series in the prepayment models. There are several home price index providers with varying characteristics and coverage. Since AD&Co. sends monthly data files to all clients (which includes a file with the HPI numbers), we had to use data that was in the public domain and had a relatively broad coverage. Also, users will now have the option to change the HPI forecasts in the model.

We are well on our way towards creating a unified model framework. All the prepayment models for adjustable rate mortgages have the same functional form. We are working towards unifying all fixed-rate models so that the full suite of prepayment models has the same functional form.

Version 5.2c of the prepayment model is scheduled to be released in the coming weeks. We are excited about the new ARM models and look forward to hearing from you.

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