

# Next Generation Predictive Modeling

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# Comments

- ▶ Modeling Prepayments now more difficult than ever
- ▶ Incorporating risk based pricing is now critical to both Originators and MSR owners and risk managers
- ▶ Using sophisticated analytical tools just became much more critical

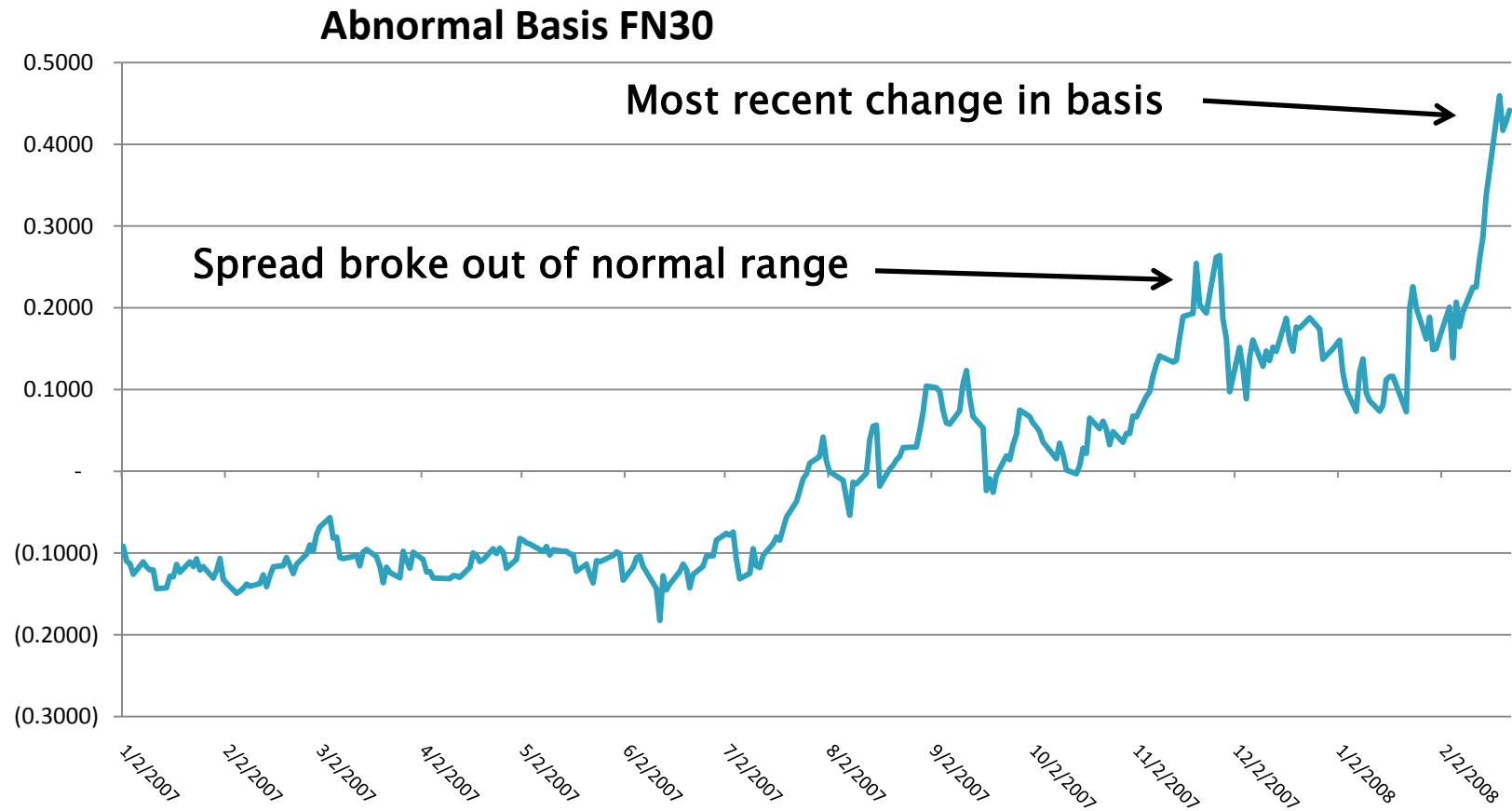
# Modeling Prepayments Now More Difficult Than Ever

- ▶ Geography, loan size, loan purpose, FICO, etc. now even more important than in the past
- ▶ House price appreciation / depreciation is a critical driver of future prepayments.
  - How will it change and how will that differ by geography?
- ▶ Understanding how mortgage rates will change in the future is now more complicated
  - Mortgage rate's relationship with market rates, like swaps, has changed
  - Will the relationship return to normal?
  - When will this happen?

# Mortgage Rates Relationship With Swap Rates Has Changed

- ▶ Certainly the spread between jumbo and alt A products and swaps has widened
- ▶ Agency spreads have also widened dramatically --- twice
- ▶ Agency spreads have been effected by:
  - New fees from the agencies:
    - 12/11/07 Freddie announcement
    - 2/21/08 Freddie announcement
  - Market fears and rumors

# Spread Between FHLMC 30 yr Mortgage Rates and Swap Rates



# Risk Based Pricing Now More Important

- ▶ Originator's pricing has not reflected all of the factors that affected MSR and security prices
  - Rate sheets were very complicated as it was
  - Reflecting these differences would have added to the complexity
- ▶ Reflecting the new, agency-driven, risk based pricing will be very challenging:
  - Computer changes needed
  - Human users of price sheets will be challenged

# Using Sophisticated Tools Now More Critical

- ▶ Just some of the areas of interest:
  - Working out loans properly
  - Call center management
  - Pricing MSR
  - Anticipating prices of net-coupon loans (securities)
- ▶ It will be challenge to use these tools adequately