

ADCo Update

State of the Non-Agency Union

By Rob Landauer

As recently as 2003, 80% of all mortgage origination was agency-backed, with the remaining 20% non-agency. In 2006, non-agency origination, including jumbo-prime, Alt-A and sub-prime loans, accounted for over 55% of total origination. By any measure, there has been a dramatic shift from an agency dominated market to a non-agency majority. This shift has important ramifications for investors, issuers and risk managers involved in MBS & ABS.

1. Participants must now consider adding non-agency holdings to their asset or product mix.
2. Risk management and valuation of non-agencies requires the inclusion of credit components - delinquency, default and loss severity.
3. Prepayment models predicated on data that does not include the most recent shift in the roster of originators of non-agency loans will not adequately capture the prepayment profile of these loans.

How have we responded to this trend?

- An entirely revamped suite of [non-agency fixed, ARM and Hybrid prepayment models](#) calibrated with loan level data from the largest issuers of non-agency loans from 2000-2005.
- The launch of our new [Loan Dynamics Model™](#) which produces required performance metrics such as CPR (prepayment), CDR (default), 60+ delinquency and loss severity. We are hosting a premier of this model at our ASF booth (709) on Monday, January 29th.