



the PIPELINE

Prepayment Update

A Look At HELOCs - Part I

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Over the years clients have asked us about prepayment models for Home Equity Line of Credit (HELOC). We recently looked at HELOC data and present some of the findings in this article. In a following article we will take a look at prepayment trends and identify ways of getting reasonable prepayment forecasts for HELOCs using the existing suite of Andrew Davidson & Co., Inc. (AD&Co) unified prepayment models.

There are many ways in which home owners take equity out of their homes. When there is sizeable equity built in, owners might do a cash out refinancing (where the new loan amount is greater than the existing loan amount). Another common way is to take out a second mortgage. The second mortgage could be either a closed-end mortgage, or a revolving home equity line of credit (HELOC).

Most HELOCs are floating rate loans and indexed to the Prime rate. HELOCs typically have a draw period during which only interest payments need to be made on the outstanding balance. After the draw period ends, regular amortization schedules are used to pay back both principal and interest.

Data Description

- Data was obtained from Intex
- All loans classified by Intex as HELOC
- Total number of unique loans in sample: 119K
- ARMs indexed to Prime: 99.6%
- Balance outstanding as of May 2009: \$23.3 Billion

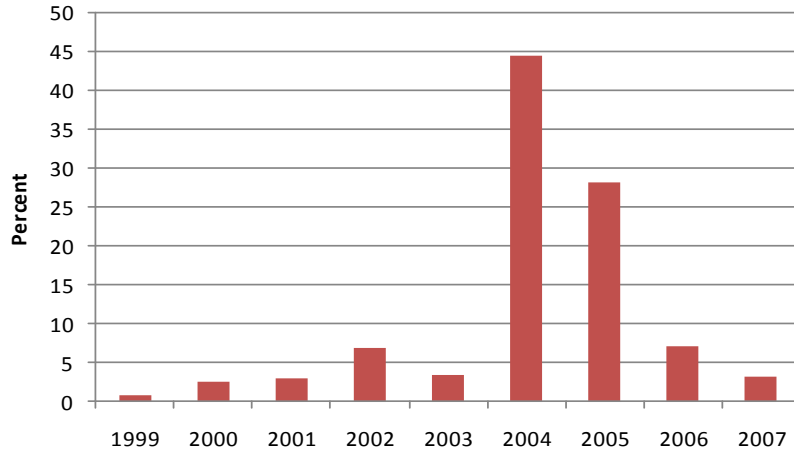
The top five issuers by current balance outstanding as of May 2009 (in \$Billions) are as follows:

Issuer	Current Balance
Countrywide	4.7
GMAC	3.6
WASI	3.6
Summitt	1.8
IndyMac	1.7

Most HELOCs are held by banks in their portfolios. The amounts shown above are for securities in the INTEX database. Actual HELOC outstanding is a lot higher.

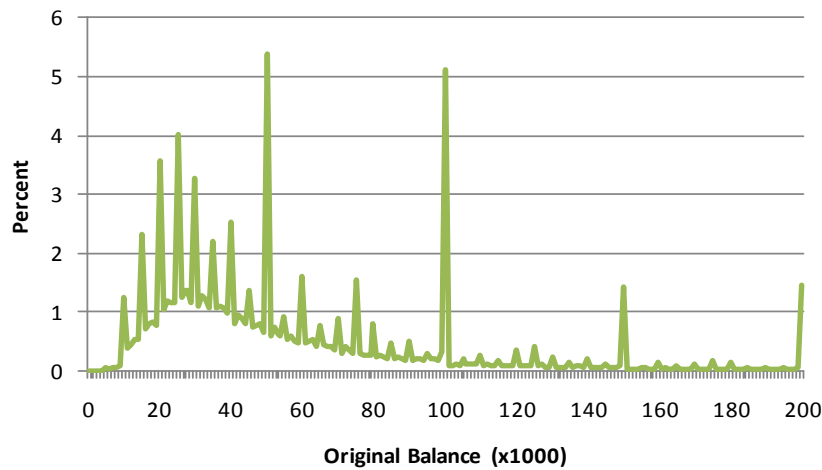
About 85% of all loans in the database are ARMs. Most of the securitized loans are from the 2004 and 2005 vintages. Chart 1 below shows the vintage distribution for all loans in the database.

Chart 1



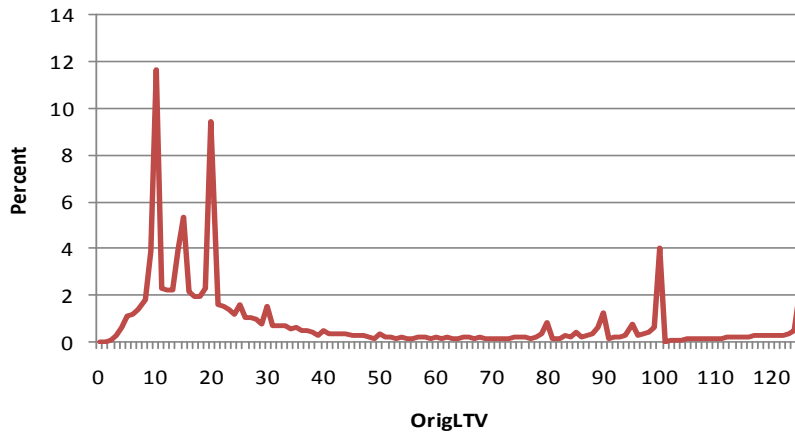
Looking at the frequency distribution of original balance and original LTV, we see an interesting trend. By rounding to the nearest thousand for balance, we see that original balances tend to cluster around big whole numbers (for example, \$10K, \$15K, \$20K). Chart 2 below shows the trend.

Chart 2



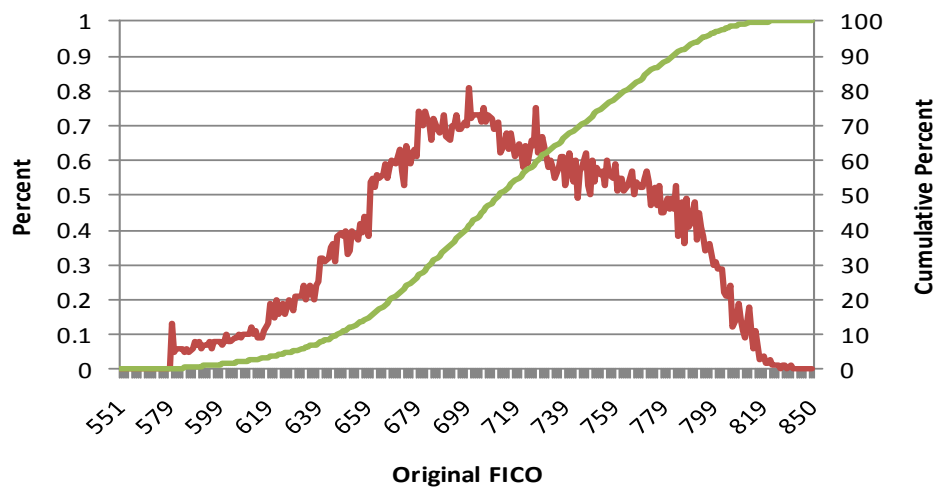
Rounding the original LTV to the nearest percent, we see that the original LTV also tends to cluster around whole numbers (for example, 10%, 15%, 20%). Chart 3 below shows the trend.

Chart 3



Looking at the Original FICO distribution, we see that roughly 50% of the borrowers had FICO scores less than 712.

Chart 4

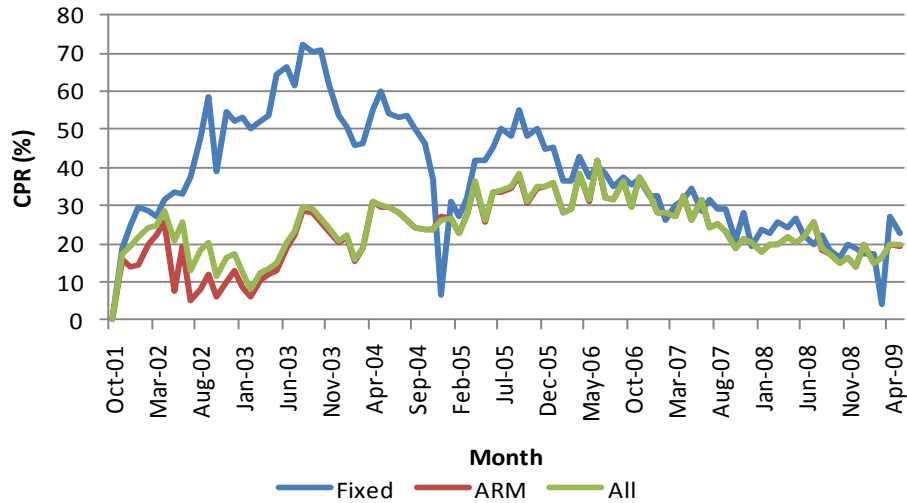


Finally we look at total termination speeds. To obtain prepayment speeds we had to make certain assumptions, which are as follows:

- Assuming 10 year Interest Only period
- Any principal payment is classified as prepayment
- Not considering negative amortization (balances can go up)
- Using both loan level and cohort level information

Chart 5 below shows the aggregate speeds by month. We see that speeds reached over 40 CPR during the middle of 2006, and have been coming in the 20 CPR range for most of this year. Historical speeds for fixed rate loans have been substantially faster than speeds for ARMs. However, speeds have converged since the middle of 2006.

Chart 5



In a following article we will look at prepayment speeds for HELOCs in various dimensions. We will also illustrate different ways to forecast speeds for HELOCs using the existing suite of AD&Co unified models.

If you have any questions or comments about this article, please contact Sanj Chatterjee (sanj@ad-co.com, 212-274-9075).

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