



A final caveat

One aspect that this framework does not control for (which may impact valuation slightly) is differences in the TBA collateral characteristics between Ginnie Mae II and Fannie Mae, such as WAC, WALA and geographic concentration. For example, the model loads FNCL 4.5% at 4.85 GWAC, and G2SF 4.5% at 4.96 GWAC.

Fair value in spec pools

In specified pools, a careful statistical analysis suggests that 4.5% coupons may be undervalued across loan balance stories, while CR pools may be overvalued across 3.0% through 4.5% coupons (Figure 7). Loan balance and CQ 4.0% also look undervalued in our model—but not to such a significant extent that we can rule out model error. Hedge-adjusted carry over TBA also continues to improve in higher coupons, with 4.5% loan balance and high-LTV pools projecting 4/32s to 6/32s of advantage, and loan balance 4.0% around 1/32 to 2/32s.

The model fair value for high-LTV pools is the result of a new permutation of our model building on the previous work done on loan balance pay-ups.

Figure 7: Modeling spec pay-ups suggests 4.5% undervalued, CR overvalued

Type	Cpn	Act Px	Mdl Px	Act - Mdl	Z Score	HAC
CQ	3.00	-0-06 0	-0-11 3	0-05 3	0.5	-0-00 4
	3.50	0-28 0	0-17 6	0-10 2	1.2	-0-02 5
	4.00	1-26 0	2-01 1	-0-07 1	-0.6	0-00 1
	4.50	3-00 0	3-02 5	-0-02 5	-0.2	0-05 1
CR	3.00	-0-06 0	-0-28 3	0-22 3	2.3	-0-01 0
	3.50	0-24 0	0-10 3	0-13 5	1.5	-0-03 6
	4.00	1-22 0	1-06 3	0-15 5	1.3	0-00 2
	4.50	3-00 0	2-10 0	0-22 0	2.3	0-06 7
LLB	3.00	0-08 0	0-18 1	-0-10 1	-1.2	-0-01 0
	3.50	1-04 0	1-03 7	0-00 1	0.0	-0-03 6
	4.00	2-04 0	2-10 3	-0-06 3	-0.9	0-00 1
	4.50	3-00 0	5-04 4	-2-04 4	-8.4	0-04 6
MLB	3.00	0-06 0	0-11 0	-0-05 0	-1.0	-0-00 5
	3.50	0-30 0	0-28 6	0-01 2	0.2	-0-02 5
	4.00	1-26 0	2-00 1	-0-06 1	-0.9	0-02 3
	4.50	2-22 0	4-15 6	-1-25 6	-7.3	0-04 2
HLB	3.00	0-04 0	0-06 7	-0-02 7	-0.8	-0-00 0
	3.50	0-18 0	0-18 2	-0-00 2	-0.1	-0-02 4
	4.00	1-10 0	1-15 2	-0-05 2	-0.9	0-01 3
	4.50	2-00 0	3-03 2	-1-03 2	-5.1	0-04 6

Note: as of COB: 03/20/15, all levels indicative. HAC based on Mar/Apr TBA dollar roll, spec pool carry calculated at prior 1M CPR, and hedge ratio based on model effective duration, with "reality check" cap adjustments made for model HRs greater than 150% of TBA.
 Source: Deutsche Bank YieldBook