Figure 3 s ifts t e fo us a d pro e ts losses for t e same sample propert ut ow t e orrower is usi g a sta dard 5 d usta le Rate Mortgage (RM) For t is mortgage i terest rates are fixed for t e first 5 ears a d t e ad ust ever ear for t e remai i g 25 ears e first t i g to oti e is t at t e CRS is su sta tiall ig er for t e 5 RM t a for fixed rate mortgages is refle ts ot t e orrower sele tio pro ess a d t e impa t of a gi g i terest rates o defaults a d prepa me ts s we move from ver low to ver ig redit s ores t e CRS approximatel dou les ra gi g from approximatel asis poi ts to a little over asis poi ts ese results emp asi e t e eed to ave separate models for fixed a d ad usta le rate mortgages as t e CRM does

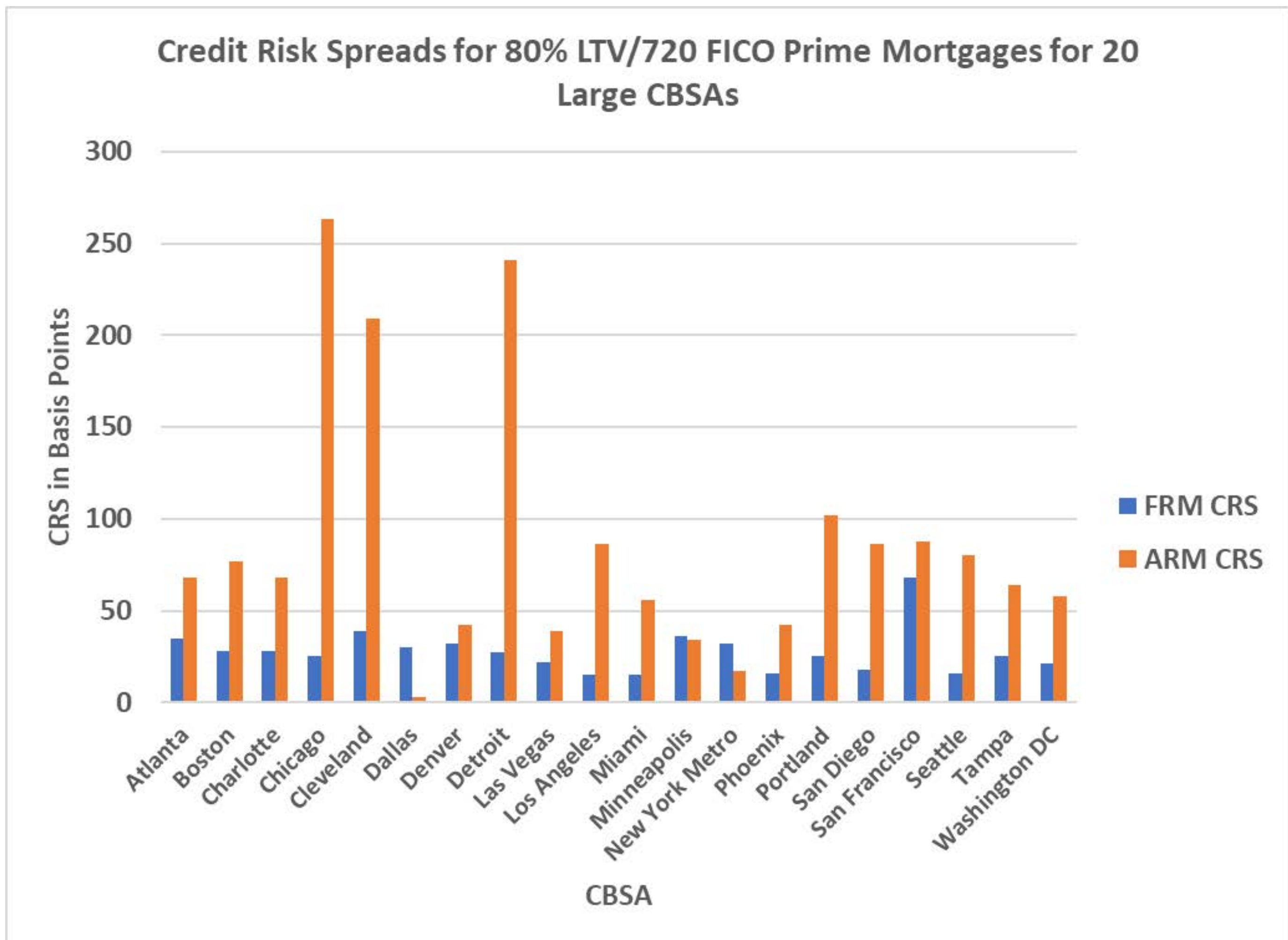
Figure 3

Figure s ows ow t e CRS varies a ross differe t i itial fixed periods d usta le rate loa s t at start to ad ust faster ave lower CRSs ree ear a d five ear RMS are ver similar i performa e w ile o e ear a d or more ear RMs ave su sta tiall differe t default prepa a d loss profiles t us drivi g t e CRS

Figure 4

Another feature of the Collateral Analytics CRM is the ability to highlight variations in credit risk among different markets. Figure 5 shows the CRS values for a benchmark 80% LTV fixed and adjustable rate mortgage with 720 FICO Score for a representative home in each of 20 major CBSAs. These variations reflect historical differences in our default and prepayment models of mortgage performance among these markets as well as what our respective home models forecast for home prices going forward.

Figure 5



Conclusions

This paper highlights the importance of providing a flexible modeling strategy when estimating risk for adjustable rate loans. The new Collateral Analytics Credit Risk Model (CRM) provides expected performance measures for individual mortgages over their lifetime. The model also provides the same types of risk measures for a pool of mortgages over their lifetime. It takes into consideration the nature of the location of the property and the characteristics of the loan, thus making it an ideal tool for CECL compliance. The risk measures are available for new originations, seasoned loans and pools of loans. embedded in the CRM is Collateral Analytics' leading AVM technology and detailed models of default, prepayment and losses.