Instructor: Dr. Wayne Archer

Office: Stuzin 301D  Office Hours: Mon, Wed.: 11:00 – 12:00 PM and following class session; other by appointment

Telephone: 273-0314  E-mail: wayne.archer@cba.ufl.edu

Class Meetings: Monday, Wednesday; 1:55 PM – 3:50 PM; Stuzin 101

Reprinted readings and class handouts. In addition to readings listed, there could be three or four additional items of required reading.

Course Objectives: To acquaint you with modern mortgage secondary markets, mortgage securitization, and the perspectives of investors acquiring mortgage based assets through these markets. The investor perspectives include:

- Comparative characteristics of mortgage securities
- Risks of mortgage securities
- Measurement and management of mortgage security risks
- Performance criteria for mortgage securities
- Trends and patterns in mortgage securities markets

Grading: Class attendance and participation: 20 percent
Exercises (S/U): 25 percent
Project: 20 percent
Final exam: 35 percent

Course Topics

January 8  Topics:  *Overview of Secondary Markets and Securitization*
Review of spot rate yield curves
Readings: F&D: Chapters 1 and 2
Assignment: Spot and forward rates exercise.
Due Friday, January 12.

January 10  Topics:  *Forward rates, spot rates, extraction of forward rates; pricing with the yield curve/ The problem of forecasting interest rates*
Reading: Van Order, *Cracks in the Crystal Ball*

January 15  No Class – Martin Luther King Holiday

January 17  Topics:  *A Close Look at Agency “Pass-through” Residential MBS; Introduction to Bloomberg system*
Readings: F&D, Chapter 3
Handouts
Assignment: Bloomberg exercise assignment
Due Monday, January 29

January 22  Topics:  Models of forward rate processes:  
Lattice models and valuation of call options.  
Readings:  Van Order, Shapes of things  
Assignment:  Exercise on value of a call option  
Due Wednesday, January 31

January 24  Topic:  Prepayment behavior; Maturity Measures, Duration, Analysis and pricing of pass-through mortgage securities.  
Readings:  Abrahams, The New View in Mortgage Prepayments: Insight from Analysis at the Loan-By-Loan Level  
Hayre, Chaudhary and Young, Anatomy of Prepayments  
Merrill Lynch’s Prepayment Model (Industry Report) F&D, Chapter 8;

January 29  Special Guests:  Dr. Paul Allen, CEO, Taylor, Bean & Whitaker Mortgage Corp;  
Jeremy Collette,  
Mortgage Banking and Managing Risk with Mortgages

January 31  Topic:  Analysis and Pricing, continued:  
Options adjusted spreads

February 5  Topic:  Introduction to WINOAS Mortgage Pricing Software  
Assignment:  WINOAS assignment  
Due Friday, February 9

February 7  Topic:  CMOs (“REMICs”) - managing prepayment risk, Sequential Pay, Z-tranches, PACs  
Readings:  F&D, Chapter 4  
Carrón Understanding CMOs, REMICs and Other Mortgage Derivatives, Handouts.

February 12  Topic:  REMICS - continued: PAC Is vs PAC IIs, TACs, Floaters, Inverse Floaters, IO/POs, residuals;CMBS  
Assignment:  CMBS Valuation Assignment (Team Project)  
Due Friday, February 23, 12:00 Noon

February 14  Topic:  CMBS, Rating Agencies and the Rating Process  
Readings:  F&D, Chapter 7  
Goldstein, What’s in a Rating?  
Geltner and Miller, Chapter 20

February 19  Special Guest

February 21  Topic:  Final topics on CMBS and Ratings

February 26  FINAL EXAM: 1:55 PM – 3:55 PM

The Chairman of the Department of Finance, Insurance and Real Estate is Dr. Michael Ryngaert.  
The department is located in 321 Business, 392-0153.