

REE 6208 Secondary Mortgage Markets and Securities

Dr. Wayne Archer

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): 30 percent

Project: 15 percent

Final exam: 35 percent

Text:

Frank Fabozzi and John Dunlevy, *Real Estate-Backed Securities*, Frank J. Fabozzi Associates (John Wiley and Sons), 2001.

David Geltner and Norman Miller, *Commercial Real Estate Analysis and Investment*, Prentice Hall, 2001. (Chapter 20)

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

Course Topics – Spring 2005

Overview of Secondary Markets and Securitization Review of spot rate yield curves.

Forward rates, spot rates, extraction of forward rates; pricing with the yield curve/ The problem of forecasting interest rates

A Close Look at Agency “Pass-through” Residential MBS; Introduction to Bloomberg system

Models of forward rate processes: Lattice models and valuation of call options.

Prepayment behavior

Maturity Measures, Duration, Analysis and pricing of pass-through mortgage securities.

Analysis and Pricing, continued: Options adjusted spreads

Special Guest: Dr. Paul Allen, CEO, Taylor, Bean & Whitaker Mortgage Corp., *The Nature of Mortgages and Mortgage Markets*

CMOs (“REMICs”) - managing prepayment risk, Sequential Pay, Z-tranches, PACs

REMICs - continued: PAC Is vs PAC IIs, TACs, Floaters, Inverse Floaters, IO/POs, residuals; CMBS

NO CLASS – Arranged meetings with project groups as needed

CMBS, Rating Agencies and the Rating Process

Private Residential MBS and Real Estate Asset-Backed Securities

FINAL EXAM