

# Elvis is Dead...

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...and I don't feel so  
good myself.

Lewis Grizzard, 1986

Things may look bleak...

...and even though  
stimulus abounds...

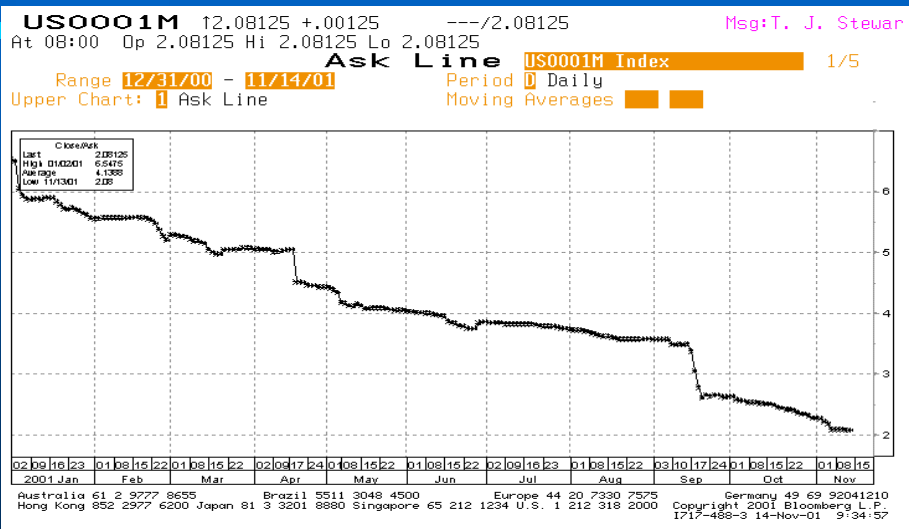
...it's still my job to  
worry!

The Plight of a Risk Manager

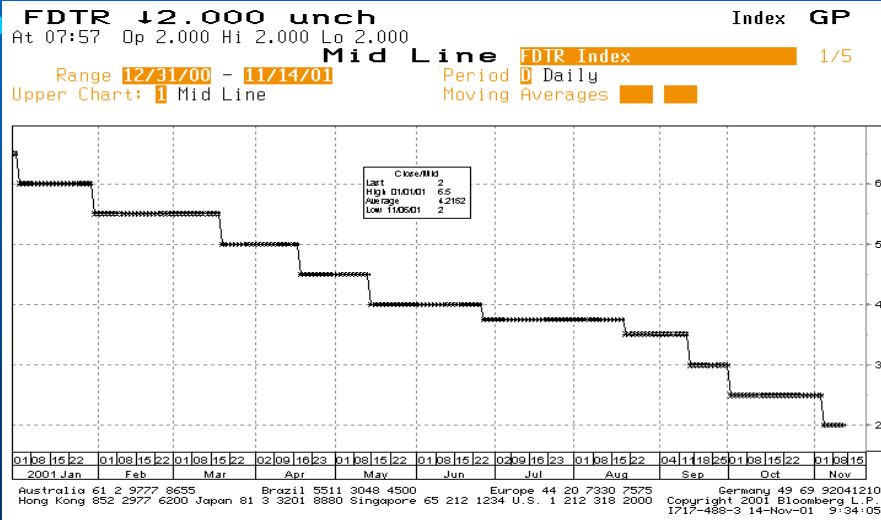
Concern One:  
Compression may be good  
for a bleeding wound...

...but it's hell on my margin.

## 1 Month LIBOR - 2001



## Fed Funds Rate - 2001



Problem: You can't  
lower rates on demand  
deposits.

Frankly, it's hard to pay  
less than zero!

**Concern Two:**  
CEO (to Portfolio Mgr.):  
“We need some income  
from the investment  
portfolio, NOW!”

Problem: To generate income  
now, you have to go out the yield  
curve. But, just wait until rates  
go back up... You're under water!

**Concern Three:**

Impairment: Are they really prepaying that fast? Or what happens when borrowers are efficient.

Problem: We don't have prepayment penalties in this country (unlike the rest of the world)!

# Who'd a think it possible?

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**Bloomberg** FREDDIE MAC Historical Prepayments Page 2 of 8

Freddie Mac GOLD Conventional - 30 Year

One Month Historical Prepayments (Aggregate)

COUPON	Nov 01 Factors				Previous Month			
	CPR	PSA	OUTST \$MM	POOLS	CPR	PSA	OUTST \$MM	POOLS
5.00	7.4	125	228.62	24	6.9	116	227.34	23
5.50	6.9	136	2724.11	570	5.6	110	2619.14	544
6.00	11.5	240	100794.60	9686	9.0	181	96950.99	9410
6.50	16.8	410	259735.34	25806	11.4	275	252692.05	25281
7.00	32.5	724	152462.19	28254	21.4	487	154647.05	27973
7.50	47.5	1002	74022.87	24698	34.9	766	77812.13	24678
8.00	46.4	995	30660.80	18027	38.8	852	31970.58	18063
8.50	41.6	941	8827.97	9247	36.7	855	9191.74	9313
9.00	42.5	886	2796.75	4800	39.9	848	2929.59	4843
9.50	39.8	790	692.64	1919	39.2	792	723.25	1941
10.00	33.5	648	180.07	522	34.6	678	186.59	527
10.50	22.2	373	27.05	133	21.9	368	27.71	135
11.00	4.0	67	3.77	39	16.1	269	3.81	39

Australia 61 2 9777 8655 Brazil 5511 3048 4500 Europe 44 20 7330 7575 Germany 49 69 92041210  
Hong Kong 852 2977 6200 Japan 81 3 3201 8880 Singapore 65 212 1234 U.S. 1 212 316 2000 Copyright 2001 Bloomberg L.P.  
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Do you know anyone who  
has not refinanced in the  
last couple of months?

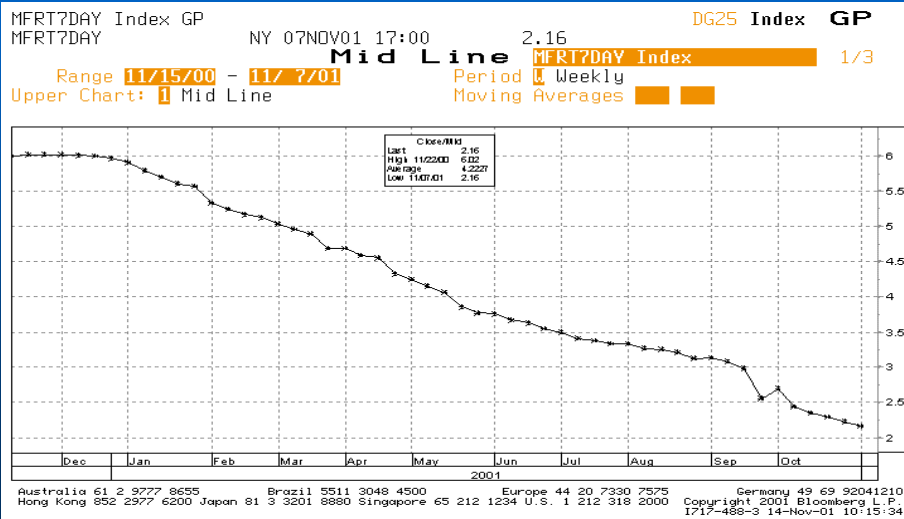
**Concern Four:**  
Keeping the customer happy!

What you don't want to hear as a  
Risk Manager:

“But if we lower rates, we'll  
lose deposits!”

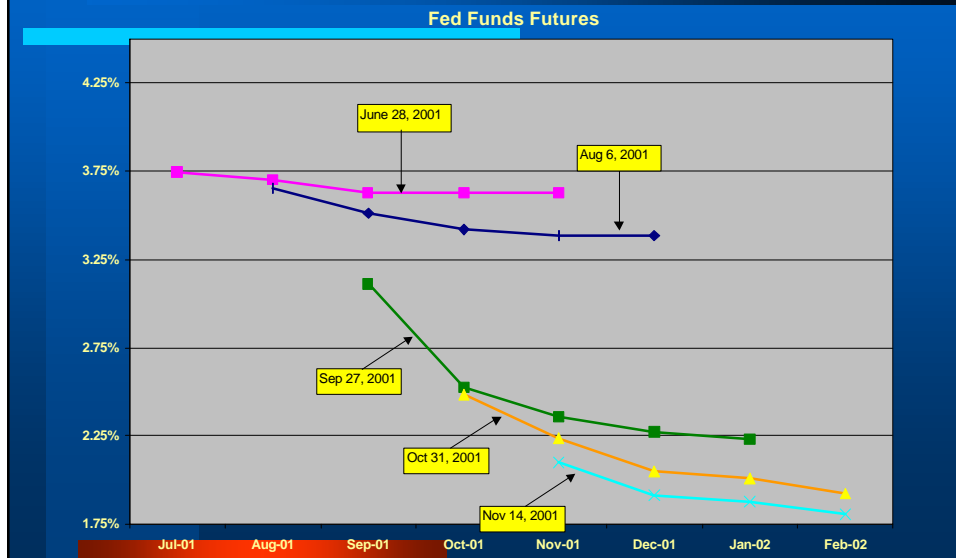
Problem: How do you model administered rates relative to market rates?

## Money Market Rate Index - 2001



# Are we good at forecasting the future?

I think not...



Well, some revisions are  
necessary!

(Of course Rajeev doesn't  
have to worry about  
revisions - Ha!Ha!)

The Big Picture (my perspective)

- **Identify and report exposure  
to interest rate movements,  
whether expected or not**

“Knowledge of the way things work, in society or nature, comes trailing clouds of vagueness.”

Kenneth Arrow, Nobel laureate in economics

## Final Comment

- **Believe it or not, I am an optimist!**

## Contact Information

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