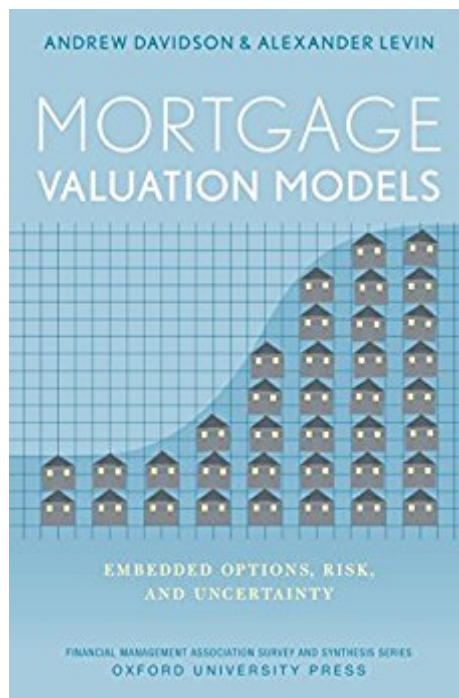# Mortgage Valuation Models: Embedded Options, Risk, And Uncertainty (Financial Management Association Survey And Synthesis)

Synopsis

Mortgage-backed securities (MBS) are among the most complex of all financial instruments. Analysis of MBS requires blending empirical analysis of borrower behavior with the mathematical modeling of interest rates and home prices. Over the past 25 years, Andrew Davidson and Alexander Levin have been at the leading edge of MBS valuation and risk analysis.Mortgage Valuation Models: Embedded Options, Risk, and Uncertainty contains a detailed description of the sophisticated theories and advanced methods that the authors employ in real-world analyses of mortgage-backed securities. Issues such as complexity, borrower options, uncertainty, and model risk play a central role in the authors' approach to the valuation of MBS. The coverage spans the range of mortgage products from loans and TBA (to-be-announced) pass-through securities to subordinate tranches of subprime-mortgage securitizations. With reference to the classical CAPM and APT, the book advocates extending the concept of risk-neutrality to modeling home prices and borrower options, well beyond interest rates. It describes valuation methods for both agency and non-agency MBS including pricing new loans; approaches to prudent risk measurement, ranking, and decomposition; and methods for modeling prepayments and defaults of borrowers.The authors also reveal quantitative causes of the 2007-09 financial crisis and provide insight into the future of the U.S. housing finance system and mortgage modeling as this field continues to evolve. This book will serve as a foundation for the future development of models for mortgage-backed securities.

Book Information

File Size: 22994 KB

Print Length: 464 pages

Publisher: Oxford University Press; 1 edition (May 22, 2014)

Publication Date: May 22, 2014

Sold by:Â Digital Services LLC

Language: English

ASIN: B00MN96NWK

Text-to-Speech: Not enabled

X-Ray: Not Enabled

Word Wise: Not Enabled

Lending: Not Enabled

Enhanced Typesetting: Not Enabled

Best Sellers Rank: #909,750 Paid in Kindle Store (See Top 100 Paid in Kindle Store)   #180

Customer Reviews

This is an outstanding book for financial professionals, students and any individuals interested in MBS. While it is not a book for beginners, Andrew Davidson and Alex Levin have drawn on their collective experience and produced a book that is simultaneously innovative and instructive. It's clear that in addition to their strong basis of knowledge, a great deal of thought and original ideas went in to this book. Anyone who wants to move past the boilerplate, basic credit research to find something fresh should read this book. It's the future of mortgage valuation.

Great book covering a wide range of relevant topics, ranging from interest rate models to an analysis of the financial crisis. It can do it thanks to the author's ability to distill the relevant factors in each topic. It pushes the envelope beyond OAS, with a sober analysis of model failures in the crisis. Everybody with an interest in mortgages can find something useful here

This is an excellent book by two of the most thoughtful, creative and quantitative mortgage researchers. I would recommend this book to every quantitative researcher in mortgages.

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