

Glossary

ARM	Adjustable-Rate Mortgage
B	Outstanding dollar balance
bp	Basis points
c	Coupon
C	Price of a call option
CD	Certificate of Deposit
CF	Cash Flow
CFO	Chief Financial Officer
CMO	Collateralized Mortgage Obligations
CMR	Consolidated Maturity Rate
CMT	Constant Maturity Treasury
COF	Cost-of-Funds
COFI	Cost-of-Funds Index
cost	Servicing cost
cpr	Prepayment rate (annual)
CTD	Cheapest-to-Deliver (security)
df	Discount factor
e	Exponential function
f	Monthly forward rate; or the simulated 1-month rate in the OAS framework
F	Futures price
FHLB	Federal Home Loan Bank
FNMA	Federal National Mortgage Association
FRFM	Fixed-rate, fixed-maturity certificates of deposit
FRM	Fixed-Rate Mortgage
GAAP	Generally Accepted Accounting Principles
GNMA	Government National Mortgage Association
I	Interest payment
index	index rate (e.g., prime rate or other)
IO	Interest-Only stripped MBS
LIBOR	London Inter-Bank Offered Rate; Rate that major international banks charge each other for large-volume loans and thus provides a benchmark for the marginal cost of funds for depository institutions.
LIP	Loans in Process (for construction)
ln	Natural logarithm function
Margin	Margin on adjustable-rate instruments
MBA	Mortgage Bankers Association
MBS	Mortgage-Backed Security
MMDAs	Money Market Deposit Accounts

n	Monthly prepayment rate; rate path
NPV	Net Portfolio Value
NPV Model	Measures an institution's interest rate risk by focusing on changes in its net portfolio value.
NPV Ratio	Calculated by dividing an institution's NPV in a given scenario by the present value (PV) of its assets in that scenario.
P	Price
Par bond	A bond whose market price equals its face value.
PV	Present Value
OAS	Option-Adjusted Spread
OTS	Office of Thrift Supervision
P&I	Principal and interest
Par yield	Constant maturity
PO	Principal-Only stripped MBS
Price sensitivity	The degree to which the market price or economic value of a financial instrument changes in response to a given change in interest rates.
r	Risk-free interest rate
REMICs	Real Estate Mortgage Investment Conduits
refi	Refinancing factor
Required return	Equals the risk-free rate plus the risk premium necessary to compensate an investor for any additional risk associated with a given financial instrument, including credit and liquidity risk.
s	Constant monthly spread used to calculate discount factors; risk premium; volatility of futures price
Spot rates	Zero-coupon Treasury yields
Spread	Average historical difference between the rate on fixed-rate 30-year mortgages and the five-year Treasury rate.
Risk premium	Spread, s
t	Any representative month
T	Month of maturity; number of periods until final maturity of instrument; time to option expiration
T&I	Tax and Insurance
Tranche	One of a related series of securities, each with different cash flows, strike prices, expiration dates, etc., engineered to meet differing investor or issuer requirements.
Unwind	Cancel a swap, or any other financial derivative position
VRFM	Variable-Rate, Fixed-Maturity
WAC	Weighted Average Coupon
WARM	Weighted Average Remaining Maturity
X	Strike price of option
z	Monthly zero-coupon rate