

OCTOBER 18, 1995



BULLETIN

New Amortization Methods in SDIM 6.0

How Will It Affect Your Accounting?

The second of two parts

In the upcoming release of SDIM 6.0, you'll have the choice of amortizing with either the prospective or retrospective method, both of which are NAIC-compliant and use estimated cash flows and Constant Prepayment Rate (CPR) assumptions. In contrast, SDIM 5.x did not use estimated cash flows and yields to calculate amortization; instead, the security was amortized to maturity with no regard to prepayments. We'll use an example to highlight the different characteristics of each method:

Retrospective

An MBS is purchased in January 1995 at a price of \$99.50 and with an 18% CPR assumption. This produces an effective yield-to-maturity of 7.85%. If cash flows don't change, the amortized value will proceed toward par.

If the CPR drops, however, the value of the security can dip below cost. For example, with a CPR of 6%, cash flows will be extended and the yield recalculated using estimated and actual cash flows. This recalculation forces the amortized value down to \$95.25. Thus, the retrospective method is most appropriate for non-volatile securities; otherwise the fluctuation in book value can be very distracting.

Prospective

The prospective method holds the current book value constant and recalculates the yield. Thus, fluctuations in cash flow do not cause big swings in the book value, but are absorbed in the yield going forward. This makes the prospective method the preferred choice for volatile securities such as IOs and IOettes.

Accelerated Amortization

Regardless of which method is used, amortization in SDIM 6.0 will be faster than under the FAS 91

method used in SDIM 5.x. The FAS 91 method essentially produced a scientific-type amortization of premium or discount over the life of the security, with additional amortization coming with prepayments.

Both the prospective and retrospective methods put more amortization into the early years of the security. A higher CPR will exaggerate this skew even more.

The Choice is Yours

Clearly, your cash flow projections are going to have a greater impact under the new NAIC requirements. You need to understand these new amortization methods and use the method most appropriate for any given category of security. MIS highly recommends that you plan for this now, to assure a smooth transition.

If you have CMOs in your portfolio, you'll also need the 6.0 CMO Module in order to produce compliant statements. This module is currently free if you take a related training class in 1995; see the article *Chicago and New York Added...* on page 2 of this issue.

Countdown to 6.0



Chicago and New York City Added To 1995 Training Schedule

SDIM clients have responded enthusiastically to the recent offer of a free CMO module, and this has prompted MIS to add Chicago and New York City to its fall training schedule.

Dozens of clients have already taken MIS up on its offer of a free CMO Module for anyone taking a related training course before year-end. The CMO Module training class is an intensive one-day session that focuses on the 1995 NAIC changes in accounting and reporting requirements, especially those relating to CMOs and MBSs. As a result of these changes, any SDIM client with CMOs in their portfolio will definitely require the CMO module to produce a compliant 1995 statement.

The CMO Module training also focuses on the use of the new module and the changes in workflow. Attendees will receive step-by-step instruction in how to clearly distinguish CMOs from MBSs and other security types, the recommended use of prospective and retrospective amortization methods, and much more.

Other topics covered in the CMO Module class include:

- Terminology and theory
- Changes in MBS accounting
- Fixed and non-editable fields
- MBS and CMO reporting
- System management
- G/L entries for accreting CMOs
- Importing and exporting data
- Converting to SDIM 6.0

The CMO Module training class is \$1,000 for the first attendee additional attendees are \$750 each; every company attending will receive the CMO Module for free. In 1996, the CMO Module and training class package are expected to cost \$2,400 more on average.

For the dates and locations of classes, refer to the registration form on page 3. To register for classes, call Donna Boyer at MIS. For more information on the CMO Module, call Ed McKenna at MIS — (303) 369-9700.

Don't delay — class size is limited and we expect strong demand. Sign up today.

Do You Need The CMO Module?

Don't risk filing a non-compliant 1995 statement; with current NAIC requirements, you need to clearly distinguish between CMOs, MBSs and other securities. This quick self-audit will help you determine whether you need the CMO Module for SDIM 6.0.

Do You Have...?

- "MBSs" with payment frequencies other than monthly?
- "MBSs" with interest accrual dates other than the 1st of the month?
- Securities that are stripped MBSs?
- Securities that are accrual bonds?
- Securities with structured principal payment schedules?

If you answered "yes" to one or more of the above, you probably need the CMO Module for SDIM 6.0. For more information on this free CMO Module, contact Ed McKenna at MIS, (303) 369-9700.

NEED A NEW SYSTEM?



Get a fast Compaq computer system for SDIM 6.0! Here's what you'll receive:

- A 75 MHz Pentium system with 16 MB of RAM and a 630 MB hard drive!
- Keyboard, mouse, internal 14.4 data/fax modem, and a 14" color monitor!
- A 3-year warranty with on-site, next day repair or replacement!
- Comes with DOS and Windows 3.11 pre-loaded.

COMPAQ

Shipped to your door for only... **\$2,599**

Call Greg Biegen at MIS today — (303) 369-9700. This offer expires 11/15/95.



Fax-back Registration Form

For CMO Module Training Classes



YES, I want to register for the class below:

Instructions: Copy this blank form as needed. Complete one form for each attendee. Submit all forms together.

	Denver	Atlanta	Boston	Chicago	New York
<i>ONE DAY SESSION</i>	<input type="checkbox"/> Th, Oct. 26	<input type="checkbox"/> Th, Nov. 16	<input type="checkbox"/> Tu, Dec. 12	<input type="checkbox"/> Wed, Nov. 8	<input type="checkbox"/> Th, Nov. 2
	...or...	...or...	...or...	...or...	...or...
CMO Module Training	<input type="checkbox"/> Fri, Oct. 27	<input type="checkbox"/> Fri, Nov. 17	<input type="checkbox"/> Wed, Dec. 13	<input type="checkbox"/> Fri, Nov. 10	<input type="checkbox"/> Fri, Nov. 3

Please register:

Your Name: _____

Company: _____

Address: _____

City: _____ State: _____ ZIP: _____

Phone: _____ Fax: _____

.....
My colleague, _____,
will also attend. Their registration form is attached, along with our payment.

Payment Method:

Check * Please bill me

CMO Class

First Attendee = **\$1,000**

Additional attendees @ **\$750 each** = \$ _____

TOTAL amount due = \$

**Make checks payable to MIS, Inc. and mail to:*

MIS, Inc.
 3131 S. Vaughn Way
 Aurora, CO 80014

IMPORTANT INFORMATION: *Class size is limited, so register soon.*

We suggest that you make your travel arrangements after you receive your registration confirmation, not before. For additional information, or to request in-house trainings, call Donna Boyer at MIS, (303) 369-9700.

Fax this form to (303) 369-9701

