

[Home](#) > [The Journal of Real Estate Finance and Economics](#) > [Article](#)

# On the determinants of yield spreads between mortgage pass-through and Treasury securities

Published: December 1989

Volume 2, pages 301–315, (1989) [Cite this article](#)

[Save article](#)

[View saved research](#) >



## [The Journal of Real Estate Finance and Economics](#)

[Aims and scope](#) →

[Submit manuscript](#) →



[James P. Rothberg](#)<sup>1</sup>, [Frank E. Nothhaft](#)<sup>2</sup> & [Stuart A. Gabriel](#)<sup>3</sup>

145 Accesses 34 Citations [Explore all metrics](#) →

## Abstract

Yield spreads between mortgage pass-through and U.S. Treasury securities may reflect differences in taxation, phenomena affecting relative supply and demand, and compensation for default, call, and marketability risks on mortgage instruments. Our research empirically models differences in yields between pass-throughs and comparable-maturity Treasuries. We find that interest-rate volatility and the term structure of rates, factors often cited in the mortgage pricing literature as affecting the mortgage call premium, are the primary determinants of movements in these spreads. Moreover, these effects have grown in importance in

recent years as exercise of the prepayment option has increased. We also find evidence that liquidity and credit concerns affect the pricing of pass-through securities.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

### Access this article

[Log in via an institution](#) 

### Subscribe and save

Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime


[View plans](#) 

### Buy Now

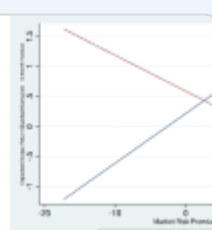
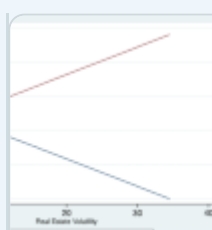
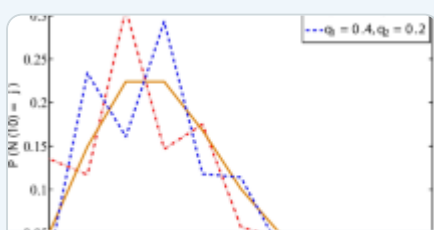
[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) 

### Similar content being viewed by others



## The Valuation at Origination of Mortgages with Full Prepayment and Default Risks

Article | 08 April 2024

## Common risk factors and risk-return trade-off for REITs and treasuries

Article | 28 March 2023



## MBS Valuation and Prepayments

Chapter | © 2022

### Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Financial Econometrics](#)

[Financial Law](#)

[Financial Economics](#)

[Household Finance](#)

[Islamic Finance](#)

[Real Estate Economics](#)

## References

Arak, Marcelle, Goodman, Laurie, and Jonson, Judith. "Predicting GNMA-Treasury Spreads." *Mortgage Banking* (January 1986).

Black, Deborah G., Garbade, Kenneth D., and Silber, William L. "The Impact of the GNMA Pass-Through Program on FHA Mortgage Costs". *The Journal of Finance* 36(2) (May 1981).

Brennan, Michael J., and Schwartz, Eduardo S. "Determinants of GNMA Mortgage Prices." *AREUEA Journal* 13(3) (Autumn 1985).

Brooks, S., and Quick, P. "CHOs and Secondary Mortgage Markets." U.S. Department of Housing and Urban Development, 1985. (Mimeo)

Cholewicki, Victor. "CMOs Transform Mortgage Credit Markets." *Mortgage Banking* (February 1985), 61-6.

Cook, Timothy Q., and Hendershott, Patric H. "The Impact of Taxes, Risk and Relative Security Supplies on Interest Rate Differentials." *Journal of Finance* 33(4) (September 1978).

Duca, John, and Rosenthal, Stuart. "An Empirical Test of Credit Rationing in the Mortgage Market." *Journal of Urban Economics* (1989, forthcoming).

Edelstein, Robert, and Rosen, Kenneth. "Collateralized Mortgage Obligations: Cheaper Mortgage Money by the Slice?" Paper presented at the American Economics Association Meetings, December 1985.

Hendershott, Patric H. "Mortgage Pricing: What Have We Learned So Far?" *AREUEA Journal* 14(4) (Winter 1986).

Hendershott, Patric H., and Shilling, James D. "The Impact of the Agencies on Conventional Fixed-Rate Mortgage Yields." *Journal of Real Estate Finance and Economics* 2(2) (June 1989), 101-115.

[Google Scholar](#)

Hendershott, Patric H., Shilling, James D., and Villani, Kevin E. "Measurement of the Spreads Between Yields on Various Mortgage Contracts and Treasury Securities." *AREUEA Journal* 11(4) (Winter 1983).

Hendershott, Patric H., and Van Order, Robert. "Pricing Mortgages: An Interpretation of the Models and Results." *Journal of Financial Services Research* 1(1) (1987), 19-55.

[Google Scholar](#)

Jameson, Mel, Dewan, S., and Sirmans, C.F. "Price and Welfare Effects of Unbundling Financial Innovations: The Case of Collateralized Mortgage

Obligations.” Department of Finance Working Paper #8724-89, Louisiana State University, November 1987.

Kau, James B., Keenan, Donald C, Muller, Walter J., III, et al. “Option Theory and Fixed-Rate Mortgages.” Occasional Paper No. 34, Housing, Real Estate and Urban Land Studies Program, Anderson Graduate School of Management, UCLA, June 1988.

Milonas, Nikolaos T. “The Prepayment Option in the GNMA-Treasury Bond Spread.” *Housing Finance Review* 6(4) (Winter1987), 261-278.

[Google Scholar](#)

Roll, Richard. “Collateralized Mortgage Obligations: Characteristics, History, Analysis.” Goldman Sachs report, April 1986.

Villani, Kevin E. “Pricing Mortgage Credit.” In Richard Aspinwall and Robert A. Eisenbeis, eds., *Handbook for Banking Strategy*. New York: Wiley, 1985.

[Google Scholar](#)

## Author information

---

### Authors and Affiliations

**Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20551, Washington, D.C., USA**

James P. Rothberg

**Department of Financial Research, Federal Home Loan Mortgage Corporation, Reston, Virginia, USA**

Frank E. Nothaft

## Rights and permissions

---

[Reprints and permissions](#)

## About this article

---

### Cite this article

Rothberg, J.P., Nothaft, F.E. & Gabriel, S.A. On the determinants of yield spreads between mortgage pass-through and Treasury securities. *J Real Estate Finan Econ* 2, 301–315 (1989).

<https://doi.org/10.1007/BF00177950>

Issue date

December 1989

DOI

<https://doi.org/10.1007/BF00177950>

### Key words

[mortgage pass-through](#)

[Treasury security](#)

[yield spreads](#)

## Search

Search by keyword or author



## Navigation

**Find a journal**

---

**Publish with us**

---

**Track your research**

---

