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It is with great pleasure that I begin the editorship of *The Journal of Fixed Income*. I certainly intend to maintain the high standards and commitment to useful applied research for fixed income practitioners worldwide that Doug Breeden has established.

This issue of *The Journal of Fixed Income* contains a group of insightful articles on mortgage-backed securities (MBS). We begin with an article by Bennett, Peach, and Peristiani concerning the value of MBS pool-specific information (e.g., loan to value ratios and credit scores) for estimating prepayment sensitivity and effective duration. This issue is extremely important for the delivery option in today's TBA mortgage market where adverse selection is leading to the delivery of faster prepaying mortgage pools than the aggregate cohort.

Brunson, Kau, and Keenan formulate a three state variable model for the valuation of fixed-rate mortgages and provide evidence on the joint effects of a two-factor interest rate model that generates refinancing incentives and a state variable for the property being mortgaged. The addition of loan to value and property value volatility will be increasingly important as the GSEs (government sponsored enterprises) accept more credit risk from originators. The next article has important policy implications for the debate over the role of the GSEs in the mortgage market. González-Rivera investigates the role of the GSEs retained portfolio of investments. The evidence indicates that purchases by the GSEs reduce mortgage spreads and that this benefit is passed on to homeowners in the form of lower mortgage rates.

Aldrich, Greenberg, and Payner provide a thorough discussion of the market, valuation, and hedging of mortgage servicing rights. The relationship to interest-only (IO) securities and the time-variation in servicing-to-IO spreads are also examined. IO investors may be unaware that other components (i.e., the float on taxes and insurance) represent 15-50% of the value of a servicing portfolio. Hence, it is inaccurate to assume that mortgage servicing behaves just like an IO. In the next article, Charlier models the refinance incentive for Dutch mortgages. A detailed analysis of annuity, savings, and interest-only mortgages provides insights into the precision of the ratio of coupon rate to refinance rate as a proxy variable for the incentive to refinance a mortgage.

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Treviño and Thomas present an analysis of the factors (macroeconomic and balance sheet) that explain the difference between local and foreign currency ratings assigned to sovereign borrowers by rating agencies. This transfer risk is found to vary across rating agencies and geographical regions. Finally, Subramanian implements a methodology to estimate the term structure when the market for government securities is relatively illiquid. A liquidity-weighted objective function is successfully applied to government of India securities. Clearly, this methodology has applications to other illiquid markets as well.

We hope you enjoy this issue of *The Journal of Fixed Income.* Your continued support of the journal is greatly appreciated.

Stanley J. Kon
Editor