# MBS Carry Model

## Accounting for Funding Costs in TBA vs. Pools

* **TBA Market Characteristics**:
  + Greater liquidity but introduces cheapest-to-deliver risk.
  + Subject to roll dynamics and funding market conditions.
* **Specified Pools**:
  + Lower liquidity, but offer cash flow precision.
  + Require adjustments for funding costs and potential roll financing.
* **Spread Adjustment Framework**:
  + Funding costs are influenced by repo rates, collateral availability, and roll specialness.
  + Elevated repo costs induce widening spreads between TBAs and pools.
  + Empirical models for roll costs provide enhanced valuation insights.
  + Liquidity stress scenarios should be incorporated into spread forecasting.
  + Differential pricing should account for varying dollar roll specialness by settlement structure and security type.