Compass Analytics | 900 Larkspur Landing Circle, Suite 285 | Larkspur, CA 94939 | www.compass-analytics.com

The Month In Review

October 2006

What's New?

Compass Analytics issued the following press release today, further advancing its mortgage valuation and trading analytics.

COMPASS ANALYTICS and Andrew Davidson & Co., Inc. partner to deliver Prepayment Models

San Francisco, CA – October 16, 2006 – Compass Analytics, LLC and Andrew Davidson & Co., Inc. announced today the successful integration of the Andrew Davidson & Co., Inc.'s MBS Prepayment Model into Compass's Mortgage Analytics solution, CompassPoint™. Mutual Compass and Andrew Davidson customers will now have access to Andrew Davidson & Co., Inc. MBS prepayment model through CompassPoint™ for derivation of option-adjusted durations and mortgage cash flow valuation and analysis.

"Andrew Davidson supplies one of the industry's leading prepayment models," said Rob Kessel, Managing Partner of Compass Analytics. "Compass's integration of Andrew Davidson's Prepayment Models will significantly augment Compass's Mortgage Valuation and Trading analytics designed to seamlessly integrate the valuation process from mapping of loan data through whole loan or structured whole loan cash flow valuations." Rob Landauer, Director of Business Development at Andrew Davidson & Co., Inc., commented "We are extremely pleased to include Compass Analytics as our newest partner and are committed to delivering the most comprehensive risk management solution we can provide to our mutual clients."

Compass Analytics provides valuation and interest rate risk management solutions to mortgage capital markets participants. Compass Analytics licenses its software CompassPoint™ to mortgage traders, investors and secondary marketing departments in order to provide unparalleled analysis in previously unattainable speed. CompassPoint's™ loan-level models, integrated file mapping, market and credit inputs, whole loan and structured cash flow analysis and reporting capabilities give CompassPoint™ users the competitive advantage in evaluating all mortgage collateral. In addition to licensing CompassPoint™, Compass uses CompassPoint™ internally to provide third party valuations as well as outsource hedge execution services, both of which draw on Compass' considerable expertise and access to market color. For more information about Compass Analytics, please visit its website at http://www.compass-analytics.com or contact Kellie Kramer at 415-925-2810 or kkramer@compass-analytics.com.

Andrew Davidson & Co., Inc. offers consulting services and risk analytics for fixed income investors with emphasis on mortgage and asset backed securities. Their Vectors™ analytics library currently offers prepayment models for MBS and asset-backed securities (ABS), a Credit/Default model, and option-adjusted valuation and risk management tools for MBS, ABS, and CMOs. The company's unique blend of investment expertise and cutting-edge quantitative methods allows it to combine decades of Wall Street experience with the most advanced modeling techniques. For more information about **Andrew Davidson & Co., Inc.**, please visit their website at http://www.ad-co.com or contact Ilda Jacobsen@ 212-274-9075 or ilda@ad-co.com.

New in CompassPoint™!

Compass is pleased to report its recent development progress in CompassPoint™, including:

- Improvements to Arm Cash Flow Modeling
- Beginning Redesign of Cash Flow Assumption Sets and Scenarios
- Further Enhancement to Data Import Calculations and Audits
- Addition of EDF Option Assets

CompassPoint™ features and capabilities reflect the business needs as defined and requested by its users. For additional information on new features or to submit suggestions and requests, please contact Rob Kessel at 415-925-2812 or e-mail at rkessel@compass-analytics.com.

Market Update

Put on your rally caps! After continuing the sideways movement that was observed in late August, bond prices rallied significantly in the second half of September as data releases indicated the once red-hot housing market was beginning to cool off and the economy as a whole was losing steam. A decrease in commodity prices led by decreases in oil prices contributed to the rally while dovish comments from Fed President's Poole and Fisher late in the month even sparked chatter of a possible rate cut before the end of the year.

Investors worried whether a housing market decline would affect consumer spending as big builders issued warnings about the deteriorating market in the first week of the month. However, a revised report by the Labor department showing labor costs in the past 12 months increased at the fastest pace since 2000, gave investors mixed signals. In the following weeks, tame CPI and weaker than expected PPI releases, coupled with another FOMC pause in rate activity at the September 20th meeting sparked a rally in bonds as inflation concerns quickly turned to worries about a hard landing for the economy. The peak of the market in September followed a sharp decline in the Fed's Philly Index on manufacturing on the 21st, which was a shock to most investors. By the morning of September 25th, the Fed Funds Futures contracts were pricing in a 7% chance of a rate decrease before year-end. However, in the last week of September additional data suggested that the Fed may be correct in their prediction that although the economy is indeed slowing, we are setting up for a soft landing, thus causing bonds to give back some of the gains from the previous week.

The market may have gotten ahead of itself in September, as the Fed certainly remains data dependent and still views inflation as their biggest concern despite the signs the economy is slowing. Analysts predict a pullback in prices and increased yields from month-end September levels if additional data fails to confirm increased weakness in the economy. – *Bob Gundel*

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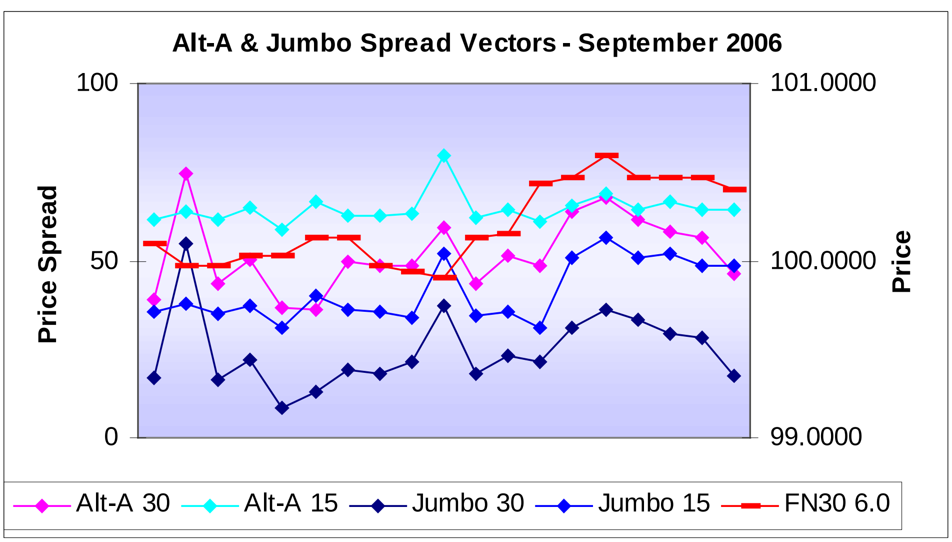
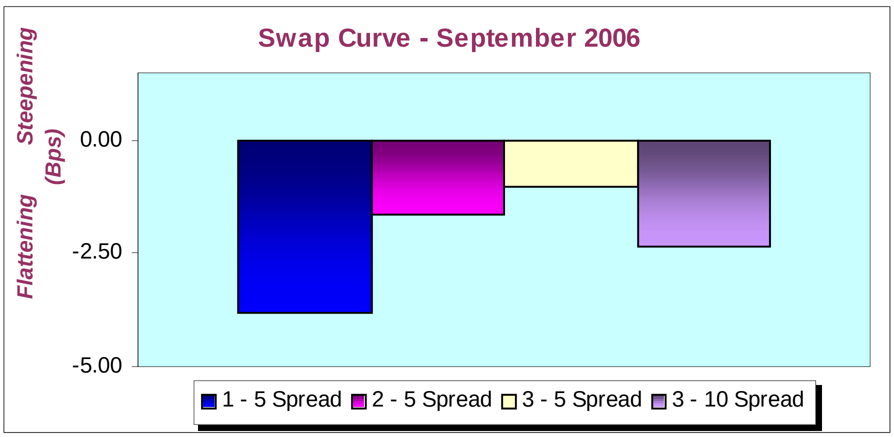
Alt A and Jumbo Spreads

Most months, we observe a dramatic change in Alt-A and Jumbo fixed rate spreads on the release of the Non-Farm Payroll number, perhaps the most important of economic indicators. September's release for the August NFP spawned a modest rally where spreads moved an average of 5 bps. The large spike was not observed until the following day, when the market reversed previous day gains, and 30-yr spreads widened considerably. Both the Alt-A and Jumbo 30-yr spreads increased by about 37 bps, only to return to lower levels the next day, while 15-yr spreads remained in a 2 bp range over both days. Spreads moved in a relatively stable manner through the remainder of the first half of September, until mid-month when we observed another spike. Interestingly, there was no significant economic data released and the market remained flat, however all spreads widened, then tightened, the following day.

Compass's valuation of the Alt-A and Jumbo Fixed bulks in September derived prices within an 18 bp average range from the winning bids. One investor showed a distinct appetite for such product, as this particular investor won 70% of the bulks. There was no notable pattern in the cover and lowest bids this month, and the spread between investor bids remained low at an average range of 93 bps. *–Vimi Vasudeva*



Hybrid Arm Hedge Analysis



September turned out to be a quiet month for the MBS market, which traded in a relatively tight range. Swap yields were led lower by the 10 year, which fell about 12 bps. Falling oil prices and soft housing data contributed to lower yields as the month progressed, most notably during the third week of September. The Fed again left interest rates unchanged and only slightly modified its statement, though still warned of elevated inflation risk. By the end of September, the 1-10 swap spread had tightened another 5 bps, leaving the 1-10 spread inverted by about 14 bps. With much data throughout the month pointing towards a softening economy, the futures market finished September predicting about a 12% chance of a 25 bp rate cut before the end of the year. *–Virgil Caselli*

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Production Index

Production in September rebounded from August lows as rates continued to trend lower. Average volume for the month was 161% of our base volume (vs. 159% in August) ranging from a low of 50% to a high of 250%. The average yield on the FN30 RNY was 6.28% (vs. 6.41% in August) ranging from a low of 6.163% to a high of 6.372%. *-Bob Gundel*