



The Month In Review

August 2007

What's New?

Compass is pleased to announce the launch of its new Mortgage Servicing Rights Analytics!

Please look for Compass's press release in the coming weeks as it announces the availability and capabilities of its new MSR analytics, which include:

- Loan-Level Valuation Model
- Loan-Level Adjustors on all Models
- Static Valuations
- 3-Factor, BMA and Static Prepayment Models
- Integration with ADCO
- Emphasis on Non-Agency Servicing
- Robust File Import and Data Mapping Tool
- Comprehensive Reporting and Stratification
- Integrated Accounting

In other news, Compass continues its monthly Webinar training series in September with sessions on Assignment of Trades and Hedging Mandatory Adjustors. First up will be *"The ABC's of AOTs"* on *Tuesday, September 11th* at 12:00 PDT and second will be *"Hedging Mandatory Adjustors"* on *Tuesday, September 18th* at 12:00 PDT. Please email Kellie Kramer at kkramer@compass-analytics.com if you have not received an invitation to a previous session so you can be added to the list of invitees. Additionally, if you would like to request a certain topic be covered in an upcoming training, please email Kellie Kramer at the above email address as well.

New in CompassPoint™!

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

- MSR Analytics (see above)
- Migration of BU & BD Grids to Tables
- Expanded WL Trading Analytics
- Expanded Deal Workflow
- Enhancements to Data Import Classification
- Filter Builder Enhancements



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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

July was a month of rally for treasury bonds, though it still did not provide much help for mortgages. The 10-yr treasury yield, which sat at 5.19% on July 9th, slid all the way to 4.68% on August 6th, a rather astounding drop of 51 basis points. Of course, that only describes the “risk-free” end of the credit markets. While the FNMA 6.00 coupon did rally itself during the period, to the tune of over 1 point in price, mortgage markets on the whole fell deeper into the abyss of the credit crunch. Loan products that appeared to stabilize over the last couple of months took it on the chin once again with most investors and conduits beating down prices and killing products on a nearly daily basis.

Regardless of the media still often referring to the current woes in the mortgage market as the “subprime” crisis, this has obviously moved into even the higher levels of credit worthiness. Even products eligible for Fannie and Freddie securities, especially the higher risk products like My Community mortgages, are being pinched hard by investors. Broker/dealers on the TBA security side are also tightening credit standards, making it difficult for lenders of all sizes to acquire new credit lines, or even maintain the existing ones, used in their hedging operations. Warehouse lenders have also felt twice-bitten by the mortgage company failings that have occurred and are finding it hard to define the differing risk provided by different warehouse clients.

To some extent, the Fed has shown greater acknowledgement of the problems facing the mortgage industry and its potential to deliver a significant blow to the economy as a whole. But, to some extent, the Fed doesn't have the tools necessary to get at the heart of the problem, which is the revaluing of mortgage risk and the current lack of appetite for that risk. Lowering the Fed Funds rate may inject liquidity into the system, but it's difficult to see how that will significantly affect the lack of appetite for mortgage risk and the issues with valuing mortgages in such a thinly traded market. A more apt solution may have been to allow Fannie and Freddie to increase their purchases of mortgage securities, but that notion was shot down.

The rating agencies have made moves to revalue existing and future mortgage issuances, but they may still be playing catch-up. At least for now, no one in the investor community wants to be the first to say that prices have dropped to or below the actual value of the various mortgage products and that real investor value may exist in the market. Given the last month, can you blame them?

—Lindsay Hill



Topic of the Month: Rating Agency Updates

Below is some interesting information on recent credit updates from Standard & Poor's and Moody's which was also discussed in yesterday's Webinar hosted by Rob Kessel:

Closed End Seconds (CES) – S&P - July, 2007

- Identified Poor Performers: 2006 CLTV>95% & FICOS<660
- 180+ Delqs = Losses w/100% Loss Severity
- Default Multipliers: CLTV > 95 – 1.7, FICO < 575 – 4; FICO < 600 – 2.5; FICO < 660 – 1.5
- CE: Sample Pool AAA CE 31.2% - 48.7%, 10% pop in OC

Alt-A Firsts – S&P – August, 2007

- Increased Delinquencies – High CLTV, House Price Depreciation, Looser Guidelines, Layering of Risks, Speculative Borrowers
- To Liquidation: 30 and 60 Delqs = 50%, 90, FCL – 80%
- Loss Severity – 25%
- Default Multipliers: CLTV > 90 – 1.05 to 1.5

Subprime – Moody's – July 2007

- Default assumptions on high CLTV, No-Doc Risk, EPDs, 1st Time Homebuyers, Note Mod Pressure (erosion of OC)
- Default Multipliers: CLTV > 90 up to 1.25, Stated & No – Doc – 1.25, EPD Risk – 1.1,
- Assumption 10% of Hybrids Don't Index Up
- Stated – Expected Loss 40% Higher on Salary vs Self-Employed
- 1st Time Homebuyers – 25% Riskier

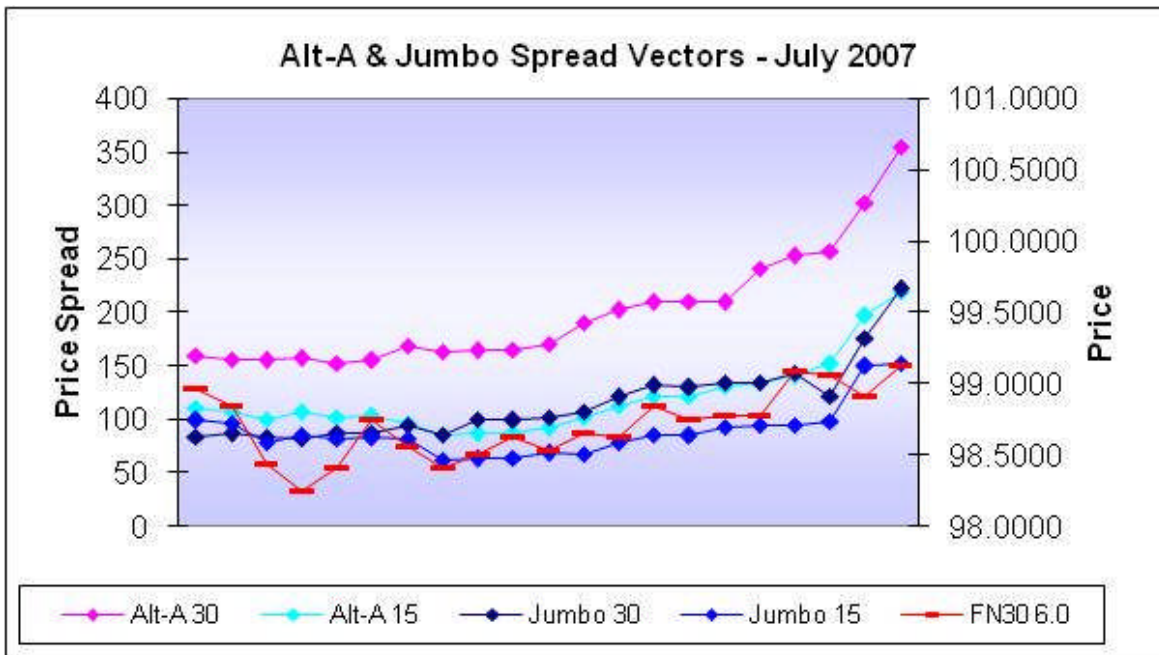


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Alt A and Jumbo Spreads

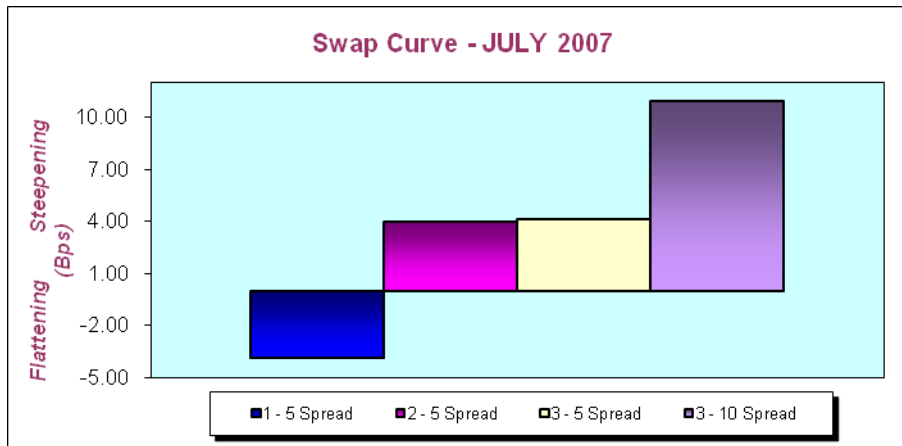
In continued mortgage market weakness in July, Alt-A and Jumbo spreads widened in a credit-driven flight to quality. What started as issues with the subprime market has filtered into other mortgage products. Even though FN30 6.0's traded within a tighter 87.5 basis point range, versus the 162.5 range in June; the widening pressure in spreads never abated but instead continued to pick up momentum, possibly hitting certain stops that traders may have set, which in turn added to the velocity as positions were unwound. Investors fled for cover to treasuries-- the 2yr note rallied 31bps over the course of July--because of three primary factors: S&P and Moody's downgrades, investors frightened by the lack of clarity on the depth and breadth of mortgage and derivative risk prevalent throughout the market, and each of market constituents' holding of this risk. No ceiling in spreads has been found as of yet.

Due to lack of liquidity and the widening spreads, bulk packages traded at much lower prices than seen in previous months. Investors have become notably more conservative and selective in their bidding on bulk products, with no consistent front-runner among investors looking to bid for this product. *-Dave Bennett*





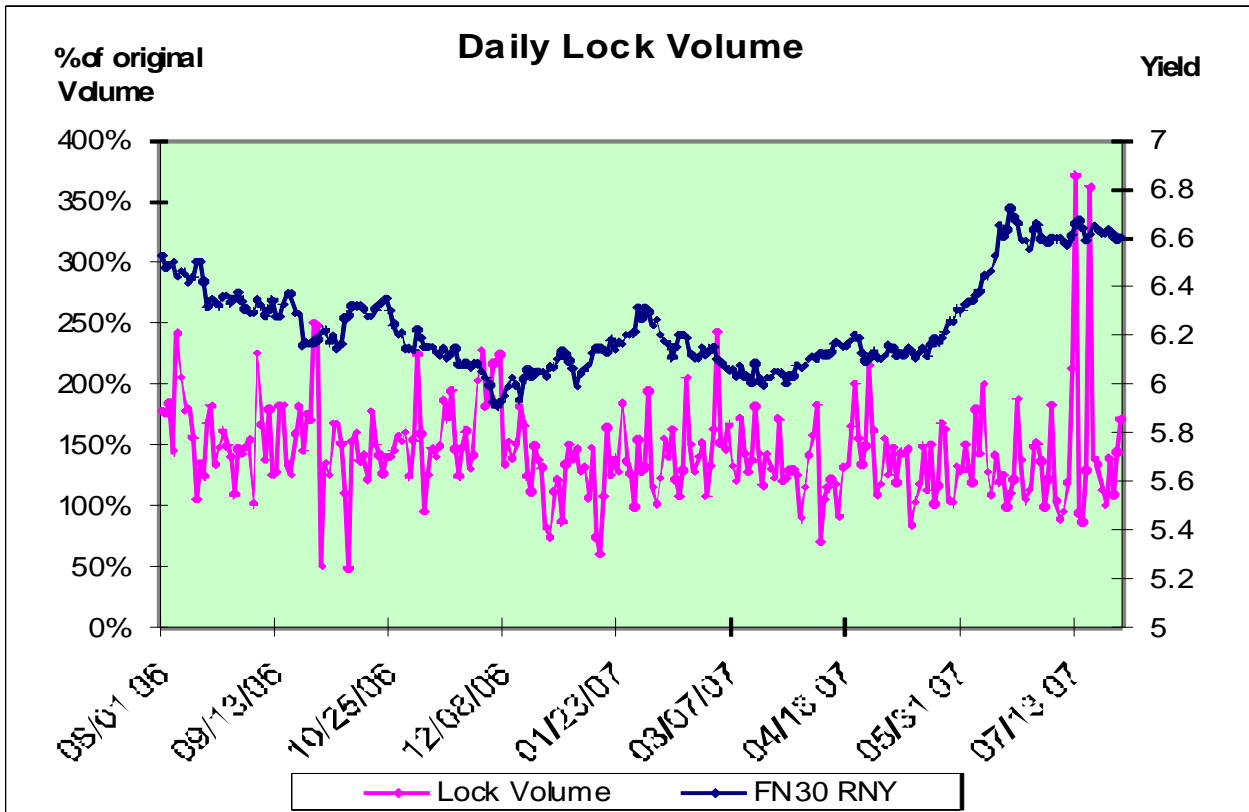
Hybrid Arm Hedge Analysis



Strong economic data spurred yields higher in early July, though risk appetites waned on credit concerns and subprime fallout as the month progressed, leading investors to seek the safety of Treasuries and consequently pushing yields lower. The 2 and 3 year swap yields experienced the greatest moves, each dropping about 27 bps. The one year LIBOR yield finished the month down 19 bps while the 10 year swap dropped 16 bps, shifting the 1-10 spread 3 bps wider, to 30 bps, at month end. -Virgil Caselli



Production Index



Production in July gained slightly while rates traded in a tighter range (11 bp range in July versus 34 bp in June), with the average yield increasing 2 bps from June. Average volume for the month was 149% of our base volume (vs. 136% in June) ranging from a low of 87% to a high of 372%. The average yield on the FN30 RNY in July was 6.61% (vs. 6.59% in June) ranging from a low of 6.56% to a high of 6.67%. —Dave Bennett