

The Month In Review

December 2007

Happy Holidays and all the best for a prosperous New Year!

What's New?

Compass continues its monthly Webinar training series and will be hosting *Hedging Rate Adjustors* on Tuesday, January 22nd at 12:00 PST.

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:

- Loan Level G-Fee Adjustors
- Table Driven Coupon Directors
- Improved Failed MTT Error Handling
- Alternative Stochastic Coverage Options
- CF View and Strat Row Highlight Capability
- Strat Loan-Level Capability and Ability to Call Stored Procedures
- Commitment UI and Pooling Improvements
- Corporate and TI Advances Modeling
- Netting of P&I Advance from P&I, Prepayment Float
- Improved Large Portfolio Processing Capabilities
- Support for Crystal 11.0

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

Although volatility spiked towards the end of the month, November saw a pretty steady and significant decline in treasury and mortgage rates. Even the 4.0% 10-yr yield put up little support on the way down. As jobless claims rose and consumer confidence plummeted, participants began speaking in earnest of further Fed cuts, including a possible 50 basis points in Fed Funds at the December meeting. The Fed itself, through several statements including those of Chairman Bernanke, signaled that the balance of forces seemed to have pushed towards recession and away from inflation.

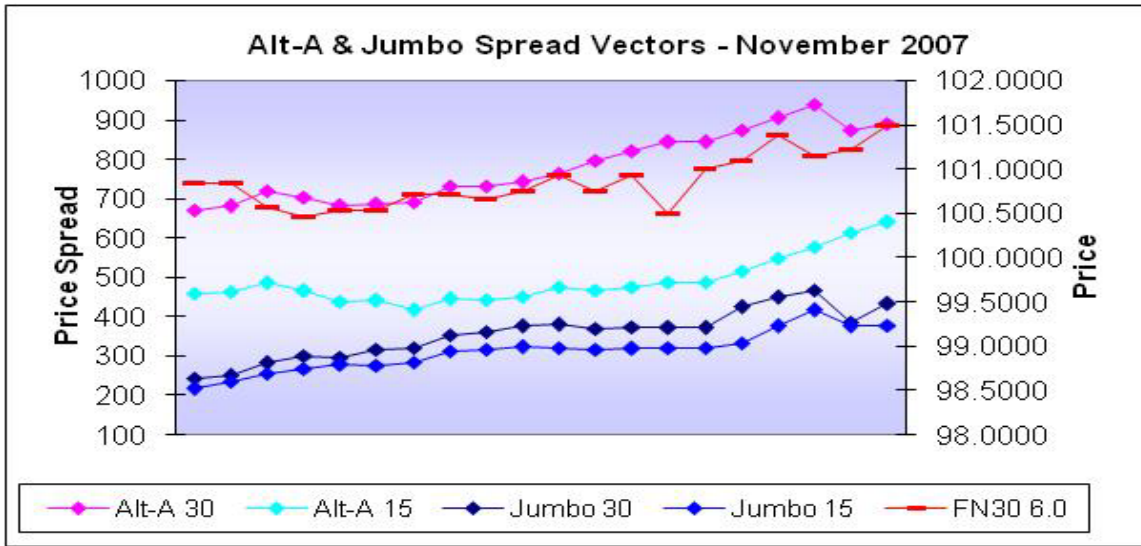
Heading into the November jobs data, the rally in bonds lost steam quickly and with job growth better than expected and wages up 0.5%, the market worked through a sharp sell-off and more intraday volatility as the Fed meeting approached. Bonds, and stocks, appeared frustrated and disappointed in the Fed's decision: not so much due to the 0.25% cut in Fed Funds and the discount rate but more so from a perceived lack of urgency displayed in the Fed statement. It seems likely that the Fed will continue to move slowly, use liquidity avenues other than rate cuts and maintain its ability to change course if they believe the data warrant a change.

The nation's banks and thrifts continue to warn investors of tough times ahead. Most recently, Wachovia doubled its previous estimate of loan loss provisions and Bank of America warned of bigger-than-expected writedowns and disappointing 4th-quarter results, to name just a couple. Notwithstanding government efforts for some type of borrower relief, mortgage markets still seem a long way from a solid footing, especially for anything non-agency. Even the agency products are being more carefully scrutinized and the agencies themselves are adding price hits while they try to redefine the value of their holdings and purchases. So much still undecided, both for benchmark rates and for mortgages, so more volatility may be what's ahead. *—Lindsay Hill*

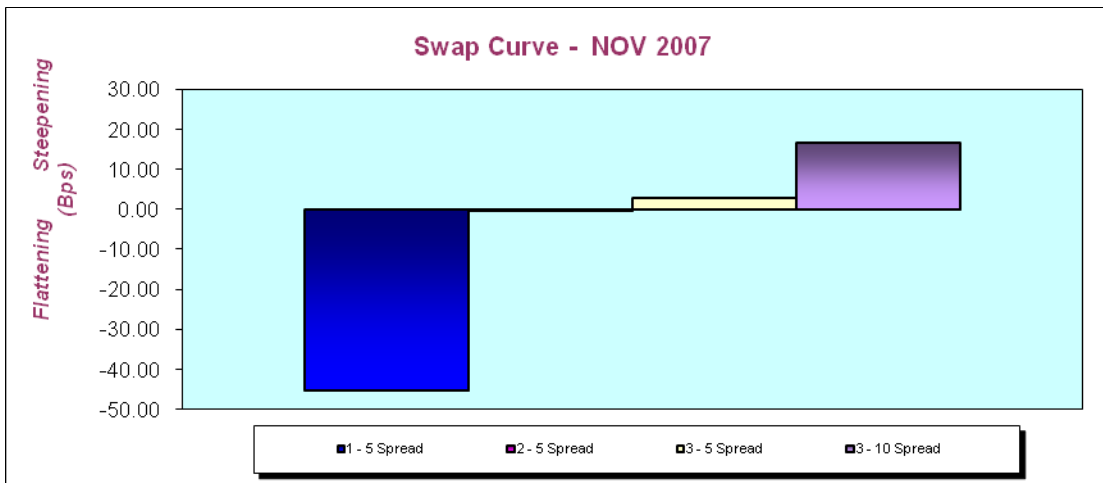
Alt A and Jumbo Spreads

Alt-A and Jumbo spreads steadily widened over the course of November. FN30 6.0's rallied and traded in a wider range, 121.875 bps versus the 103.125 range in October. The month started off with a bang with Nonfarm Payrolls printing at 166K vs. an expectation of 85K, showing a much more robust job market than many economists had forecasted. Then the write-downs continued to filter out: Citigroup-- \$11B, Wachovia-- \$600MM set aside for loan losses in the fourth quarter, IndyMac-- \$202.7MM as its first quarterly loss, and Morgan Stanley-- \$3.7B loss for the two months ending 10/31. Inflationary concerns continued with the dollar weakening against other major currencies as traders unwound the Yen carry trade and China, which holds \$1.43 trillion in dollar denominated reserves, stated that the dollar was "losing its status as the world currency". The Fed has hinted that the weakness in the housing market may be stunting growth more than first anticipated, so additional rate cuts may be on the way. In treasuries, the bull-steepening rally left 2-10's at 94bps at the end of the month (started month at 59bps). Although spreads appear to have leveled out, there is still a great deal of volatility in the market that could push spreads even wider.

—Dave Bennett

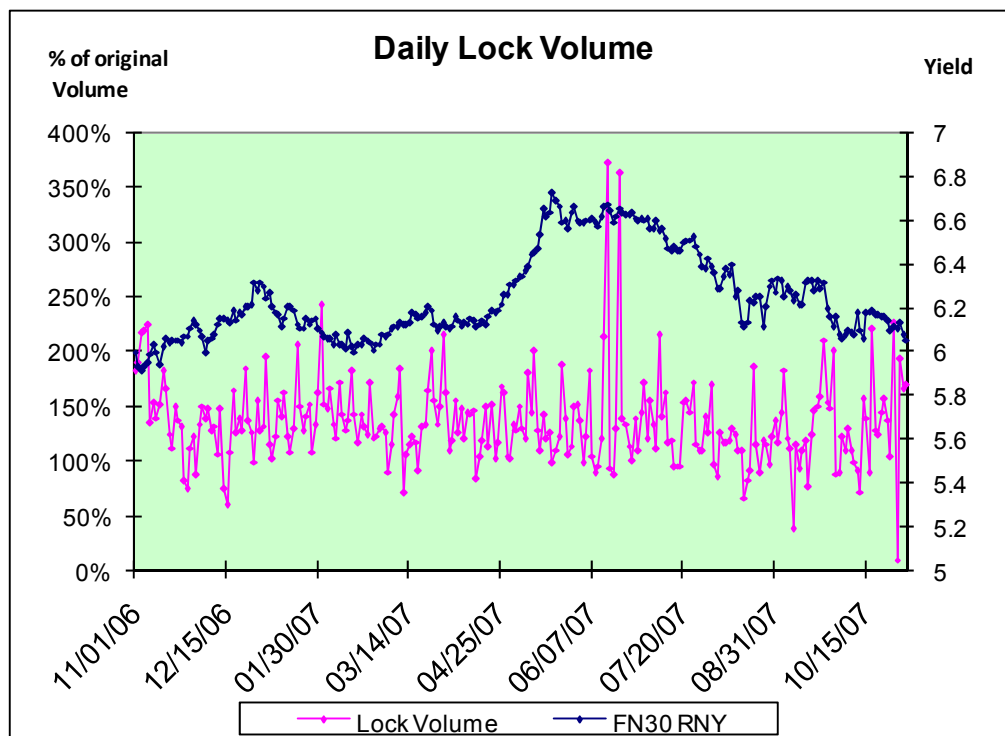


Swap Curve Analysis



Swap yields plummeted in November as uncertainty in the banking system and financial markets resulted in a flight to quality and a very volatile month. The 2, 3 and 5 year swap yields led swaps lower, dropping an average of 65 bps in near parallel fashion, flattening the curve significantly at the front end. The 1-10 LIBOR/Swap spread tightened 31 bps, reversing October's widening action leaving the spread at about 17 bps at the end of November. -Virgil Caselli

Production Index



Production in November increased while rates traded in a wider range (35bp range in November versus 26bp in October), with the average yield decreasing 11bps from October. Average volume for the month was 132% of our base volume (vs. 128% in October) ranging from a low of 10% to a high of 226%. The average yield on the FN30 RNY in November was 6.10% (vs. 6.21% in October) ranging from a low of 5.83% to a high of 6.18%. *—Dave Bennett*