



## The Month In Review

November 2007

### What's New?

Compass continues its monthly Webinar training series with the following three sessions for November and December:

- 1) "Conventional Best Execution" on Tuesday, November 20<sup>th</sup> at 12:00 PST,
- 2) "Mortgage Cash Flows" on Tuesday, December 4<sup>th</sup> at 12:00 PST.
- 3) "Conventional Best Execution" on Tuesday, December 18<sup>th</sup> at 12:00 PST

Please email Kellie Kramer at [kkramer@compass-analytics.com](mailto: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 Guarantee Fee
- Table Driven Specified Pay-ups
- Improved Audit/Calc Options
- Improved File Import Filter Options
- Expanded Discount Options/Units
- Cash Flow Graphing Tool
- LDA Security and Security Admin Tools
- Enhancements to Database Toolkit
- Improved Pooling Workflow and Functionality
- Index Based Earn & Pay Rates
- Data Audit Tool
- MSR Recourse Model
- Expanded CF Fields



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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](mailto:rkessel@compass-analytics.com).

## Market Update

Following a bounce higher in September and early October, treasury yields continued lower over most of the last month. The 10-yr yield, which moved above 4.70% last month, dropped below 4.25% over the last week.

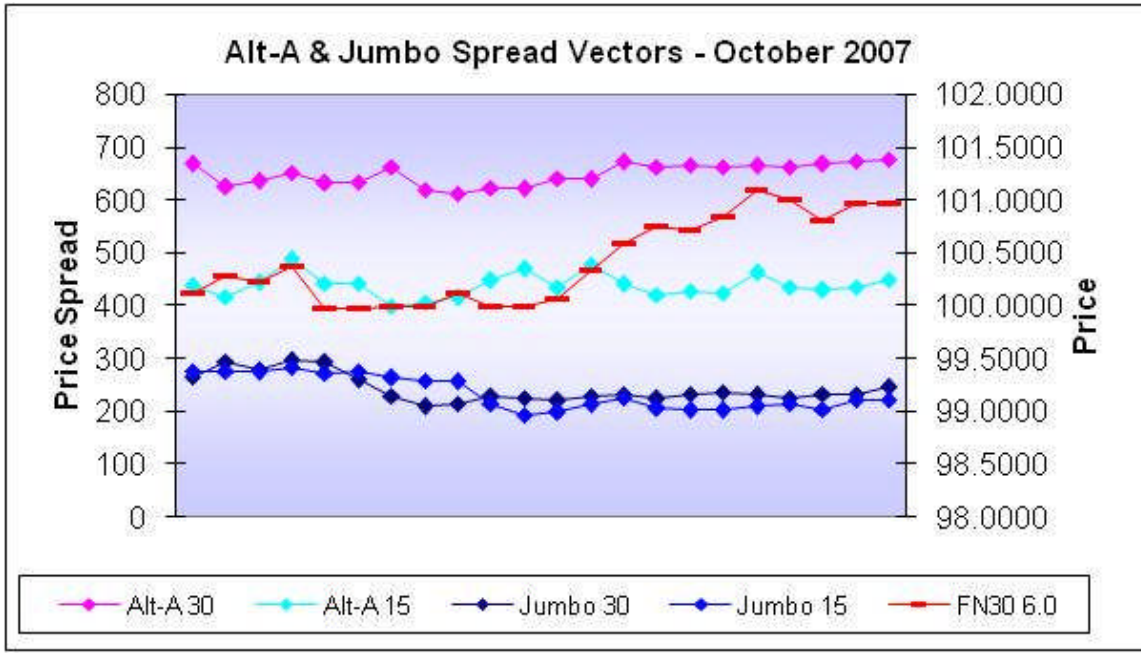
The news remains largely the same: housing construction and sales figures remain weak, consumer confidence is drifting lower, and core inflation remains fairly-well contained. Crude oil has climbed to near \$100/barrel, which alternately fuels inflation concerns for some and recession concerns for others. Add in the dismal earnings reports coming out of even the largest banks and you have sufficient concern and confusion to push rates lower.

The FOMC stayed within expectations by dropping the Fed Funds and discount rates by another 25 basis points at the Halloween meeting, but caused some concern for those looking for even lower rates going forward. The policy statement described a Fed view of balanced risks between slow growth and inflation. While the Fed may certainly feel that the risks are balanced at this time, they may also have desired to take back some control over policy from the markets themselves.

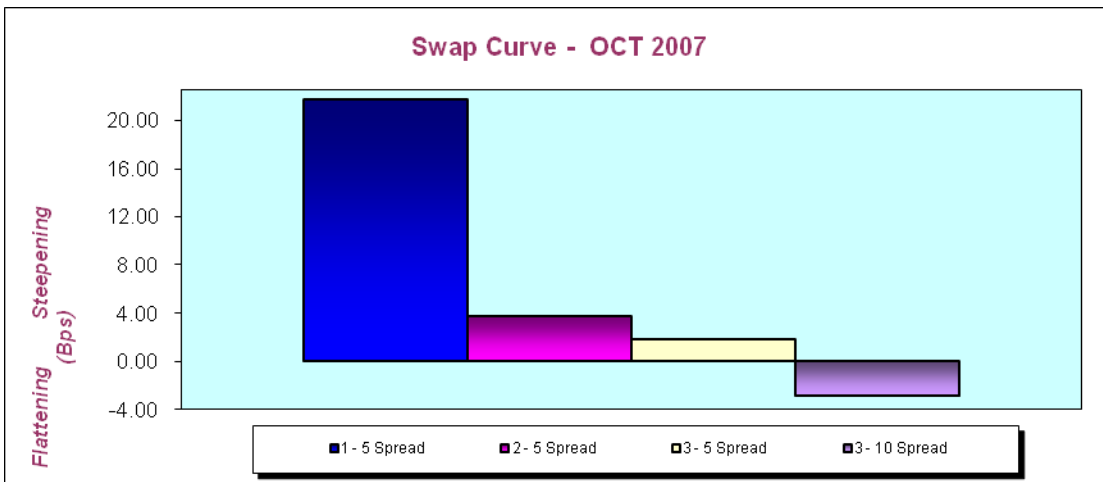
Maybe the biggest piece of the current puzzle is the wallop being delivered to the nation's financial institutions. Write-downs have been huge and will likely continue for some time. Congress is scrambling to put some bill in place to show they are paying attention, but, in my opinion, the likely outcome of a zealous Congress, working to take visible action, is a bill that does more harm in the long run than good. *-Lindsay Hill*

## Alt A and Jumbo Spreads

After a few bumps earlier in the month, Alt-A and Jumbo spreads experienced relatively range-bound trading in October. FN30 6.0's rallied and traded in a tighter range, 103.125 bps versus the 106.25 range in September. The month started off with a bang with Nonfarm Payrolls printing at 110K vs. an expectation of 100K; the market paid more attention to the August revision from -4K to 89K, showing a much more robust job market than many economists had forecasted. Then the admissions began to filter out as write-downs were announced: Bank of America-- \$4B, Wachovia-- \$1.3BB, Merrill-- \$7.9B, and UBS-- \$4.4B. Inflationary concerns also began to pick up as gold hit levels not seen since 1980; oil continued to hit record prices; and the dollar continued to weaken against other major currencies. The Fed, however, decided that the proper means to level out the downside risks to growth with the upside risks to inflation was to lower a quarter of a point to a 4.5% Fed Funds rate. In treasuries, 2-10's ended the month at the same level as it began, 54bps, even though the curve shifted down 6bps over the course of the rally. 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

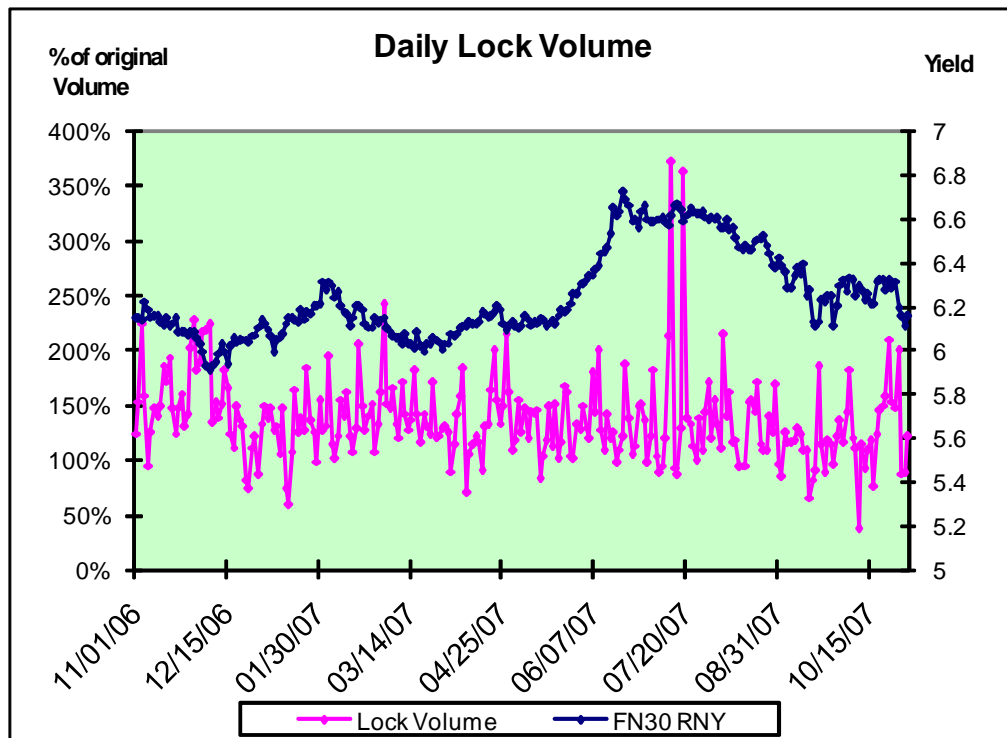




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Even in the face of strong payroll data early on, October saw the one year LIBOR yield fall 26 bps as the swap curve fell an average of 7 bps. Much as in September, short term yields fell as the likelihood of future rate cuts increased with turmoil and uncertainty deepening in the credit markets. The Fed did cut another 25 bps on the last day of October, citing downside risk to growth and upside inflation risk are roughly balanced. The 1-10 LIBOR/swap yield spread widened by 17 bps in October, leaving the spread at about 47 bps at month end. -Virgil Caselli

## Production Index



Production in October increased while rates traded in a slightly tighter range – 26 bp range in October versus 29 bp in September - with the average yield decreasing 4 bps from September. Average volume for the month was 128% of our base volume (vs. 111% in September) ranging from a low of 38% to a high of 211%. The average yield on the FN30 RNY in October was 6.21% (vs. 6.25% in September) ranging from a low of 6.06% to a high of 6.32%. -Dave Bennett