

## The Month in Review

December 2008

### What's New?

Happy Holidays and best wishes for a healthy and prosperous New Year!

In an unprecedented move, the Fed today has established a record low target range for the fed funds rate of 0% to .25%.

Compass is happy to announce the successful enhancement of its Citrix server farm which was brought on-line last month concurrent with multiple back-up servers to further broaden Compass's systems redundancy and to provide greater processing speeds to Compass's customers.

### New in CompassPoint™!

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

- Expanded Cash Pricing Options and Mapping
- Improved Storage and Access of ADCO Prepayment Data Files
- Integrated Graphing Option in Stratification Tool
- 2D Text MSR/WL Adjustors
- Additional Non-Performing Model Options and Cash Flows
- Expanded Stratification Reporting Functions
- Improved Efficiency in Environment Resets with Changing Price Dates
- Improvements to Float Calculator
- Expanded IR Swap Price/Shock Trace Detail

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 415-462-7500 or e-mail at [rkessel@compass-analytics.com](mailto:rkessel@compass-analytics.com).

### Market Update

Notwithstanding a few brief pauses, mortgage rates continue to slide lower as the recession deepens and news of a Treasury desire to push agency purchase rates down towards 4.5%. The 10-yr treasury rate continues to trade well below 3.0% and the 2-yr note no longer yields 1.0%.

On the recession front, the employment picture continues to under-perform some already gloomy predictions. In November, the US economy lost over ½ million jobs, pushing the unemployment rate another 2/10ths higher to 6.7%. Most expect the job losses to continue well into next year. Production

indices also show further weakness as the ISM manufacturing and services indices, among others, continue to drop with readings in November of 36.2 and 37.3, respectively. Even the lame-duck White House is finally admitting that the U.S. economy is in recession.

Regarding the reported Treasury plan to push mortgage rates down to 4.5%, the news, and the reaction to it, seems somewhat premature. According to Treasury Secretary Paulson, no details of the plan have been worked out. The plan was assumed to be directed at agency loans for purchase transactions. Is that really where the problem lies? While it may help housing prices to have more attractive purchase rates, it seems the core problem is still the existing loans that are well underwater. Presumably, many or most current homeowners would not be able to take advantage, even if they did desire to move or trade up, given that they would still have an existing loan holding them back. Also, even if purchase money was available at 4.5%, with underwriting standards still very tight and maybe tightening further, qualifying for the funds would be difficult for many.

News of the plan certainly makes it tougher on lenders to close recent purchase loans that have already been locked at attractive rates. It may be too much to ask, but hopefully, future news of the Treasury's plans will be delivered with more thought and substance so participants can deal with the expectations reasonably. It does the Treasury no good to put even more pressure on the lenders needed to distribute the money they would like to make available. *—Lindsay Hill*

### **Press Release: Compass Analytics and Radar Logic Announce Integration of Radar Logic's RPX and Daily Prices™ to Compass's Mortgage Analytics**

**San Francisco, CA – December 9, 2008** – Compass Analytics, LLC and Radar Logic, Inc. announced today the successful integration of the Radar Logic's RPX, Residential Property Index into Compass's Mortgage Analytics solution, CompassPoint™. Compass customers can now seamlessly update portfolio residential property values through CompassPoint™ employing Radar Logic's RPX by zip code and MSA. The integration will allow investors, portfolio managers, servicers and whole loan traders to seamlessly update property values as part of data load processes and leverage better loan-level property value, LTV and equity data for more accurate valuations. Analysts are able to employ their choice of HPI forecasts or leverage Radar Logic's Daily™ Prices for implied HPI forecasts in conjunction with CompassPoint™'s prepayment, delinquency and default tools to better forecast timing of default and actual loss severity given forecasted HPI.

Compass and Radar Logic also announced today plans to integrate Radar Logic's RPX™ Derivatives into CompassPoint™ for initial roll out in January, 2009. This integration will enable analysts to mark-to-market RPX™ derivatives and model and employ the derivatives to hedge property value and credit risk in loan portfolios. Hedgers can also model prepayment sensitivity to HPIs and employ RPX™ derivatives to better manage that risk.

"Recent market dislocations have provided unprecedented opportunities and risks in mortgage investments," said Rob Kessel, Managing Partner of Compass Analytics. "Compass is very pleased to continue its progress in integrating best-of-breed models and inputs such as Radar Logic's to allow analysts, traders and risk managers to pull together the best inputs and models without having to address data handling and integration concerns." Kiva Patten, head of property derivatives at Merrill Lynch added: "The investment and trading community is really beginning to understand and view

housing as a distinct asset class with the attendant need for derivatives to support investment and risk management activity. RPX™ derivatives and hedging tools and analytics such as Compass's will support the development and broad use of such derivatives". Michael Feder, President and CEO at Radar Logic, commented "This is a natural step in the evolution of the utility of RPX as a tool for trading Real Estate as an asset class. We are delighted to be part of this significant effort with Compass".

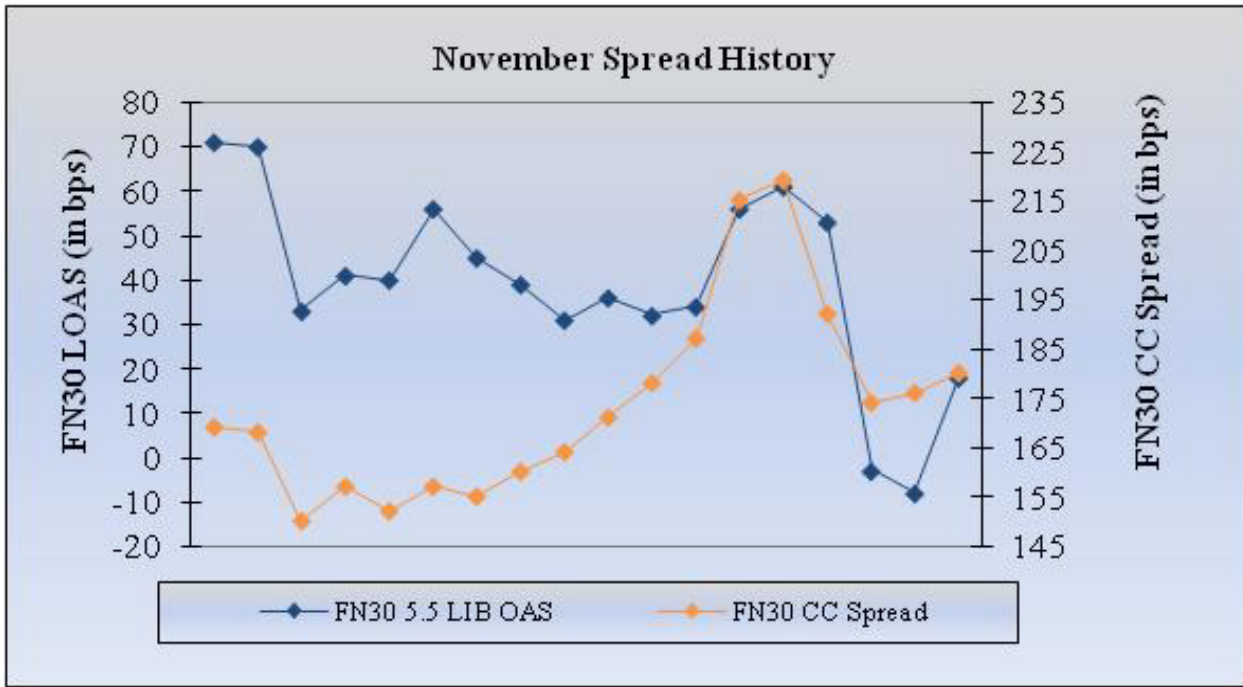
### ***About Radar Logic***

Radar Logic Incorporated, a real estate data and analytics company, calculates and publishes the Radar Logic Daily™ Prices. The prices track housing values for major U.S. metropolitan areas and are the basis of the Residential Property Index™ (RPX™), a market that enables real estate to be traded as a liquid asset, via property derivatives marketed by major financial institutions. RPX allows real estate and financial professionals to manage opportunity and risk, invest in real estate values without owning physical assets and effectively analyze markets using a consistent metric: price per square foot.

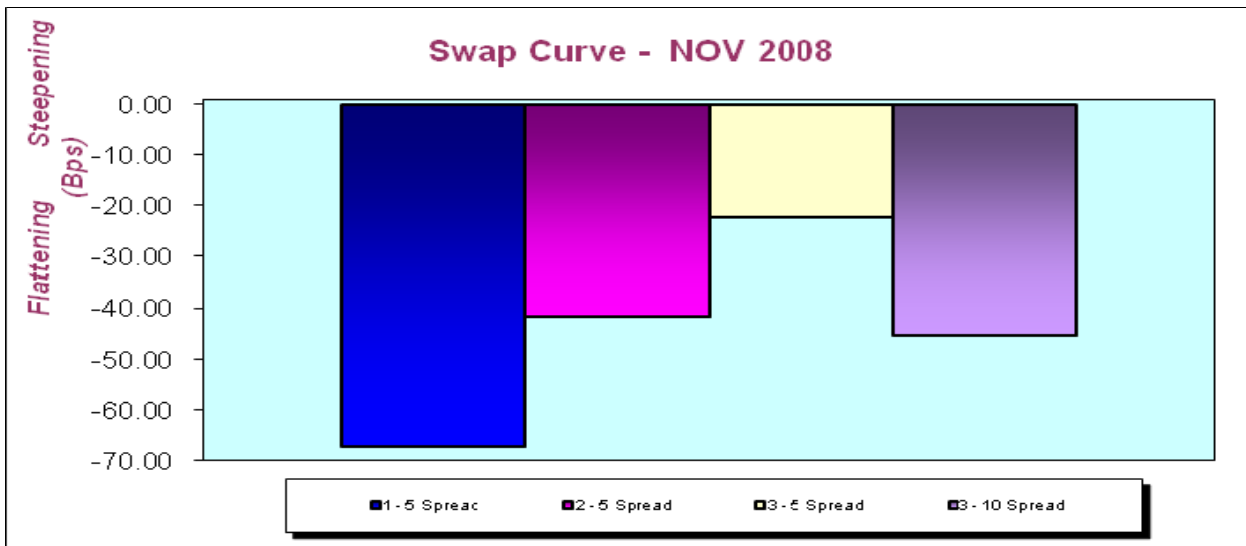
For more information on Radar Logic and the RPX, including licensed dealers, please visit [www.radarlogic.com](http://www.radarlogic.com). Media Contact: Bettina Klingler, Radar Logic Incorporated, 646-224-7003 [bklinger@radarlogic.com](mailto:bklinger@radarlogic.com).

### **Alt A and Jumbo Spreads**

In another dramatic month, the focus continued to be on Central Banks and governments around the world doing whatever they could to avoid a deeper than necessary downturn. The month started off with Nonfarm Payrolls printing at -240K (-284K in October, revised down from -159K) vs. an expectation of -200K. The unemployment rate jumped to 6.5%. Different governments used varying methods to combat the volatility: the Bank of England cut rates by 1.5 points to 3%; the Swiss Central Bank cut rates by 1 point; the ECB cut rates by 50bps to 3.25%; China cut rates by 108bps to 5.58% and announced a \$586B stimulus plan (1/5<sup>th</sup> of the total GDP); the US increased the bailout amount for AIG to \$152B; and Russia increased rates to try and prop up the Ruble. To save Citibank, the US government agreed to guarantee \$306B of mortgages on their balance sheet. The Federal Reserve announced an \$800B plan to unfreeze the credit markets by buying Mortgage Backed Securities. Earnings continued to be poor: Home Depot announced a 31% decrease in profits; GMAC reported a 5<sup>th</sup> straight quarterly loss and applied, and was rejected, to become a bank; and Circuit City declared bankruptcy. Worldwide writedowns now stand at \$988B and firms have raised \$910.8B in capital. All-in-all, there is a pretty bleak picture for the economy going forward. FN30 Current Coupon spreads and LIBOR OAS both showed volatility throughout the month. In treasuries, the bull-flattening rally left 2-10's at 194bps at the end of the month (started month at 248bps). *—Dave Bennett*

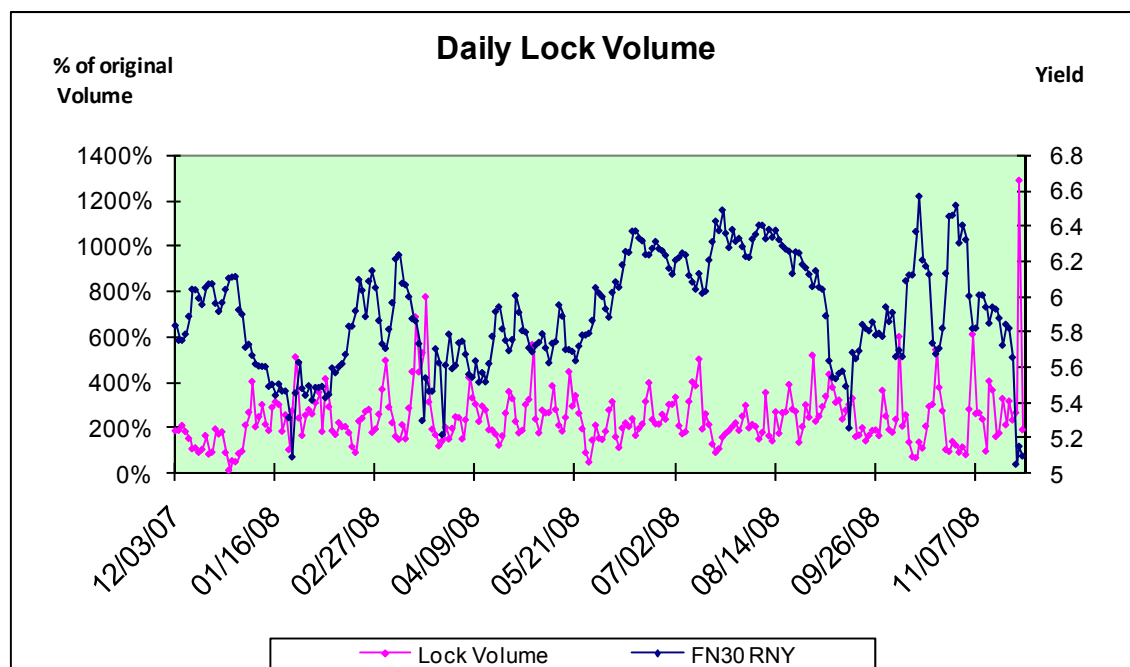


**Swap Curve Analysis**



LIBOR/Swap yields plummeted across the curve in November with longer term rates tumbling over a point, leading to a significantly flatter curve, more than reversing October's steepening. With credit markets continuing to thaw, the Ten Year Swap plunged 130 bps, leaving the 1-10 spread 90 bps flatter at 38 bps.—*Virgil Caselli*

## Production Index



Production in November increased while rates traded in a much wider range (136bp range in November versus 91bp in October), with the average yield decreasing month over month. Average volume for the month was 309% of our base volume (vs. 216% in October) ranging from a low of 79% to a high of 1,239%! The average yield on the FN30 RNY in November was 5.80% (vs. 6.05% in October) ranging from a low of 5.04% to a high of 6.40%. -Dave Bennett