The Month in Review

July 2008

What's New?

Last week at the Western Secondary Conference, Sern Clementson presented and Rob Kessel moderated a session entitled *Capitalizing on the Agencies – Pricing Agency Loans/Best Execution.* The session discussed how to capitalize on the Agencies in today's lending environment and the dynamics behind pricing and best execution with the agencies. Sern will be reviewing this session in our August 19th Webinar, details below, or if you can't make that session and would like a copy of the presentation, please email Sern at sclementson@compass-analytics.com.

In addition, Rob Kessel and Brandon Case will be teaching next week for Fannie Mae's Housing Finance Institute in Chicago. Rob Kessel will be teaching Swapping Loans for Fannie Mae MBS on 7/24 and Brandon will be teaching Pricing and Selling Loans to Fannie Mae on 7/22 and 7/23.

Compass continues its monthly Webinar training series with the following sessions:

- For Compass customers, we will be holding a report training session covering our *Duration, Hedge, Commitment Detail and Pairoff reports* on July 29th at noon PT
- *Pricing Agency Loans & Best Execution* on Tuesday, August 19th at noon PT

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.

New in CompassPoint™!

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

- Explicit PV01 and dPV01 Calculations for MSRs, Swaps and TBAs
- Server-Side Optimized Reporting
- Interactive Query Drop Down Boxes
- Price/Yield Market Data Model Adjustors Keyed on Price Date
- Swaption Volatility Observations based on Price Date and separate LMM Model Volatility Source Control
- Excess Servicing Multiples Accessible Through Tables
- Voluntary and Involuntary CPRs
- AFT Prepayment Index/Spread Capabilities

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.

Market Update

Concern and volatility have ramped-up once again in the mortgage markets. Fannie Mae and Freddie Mac, who together hold over $5 trillion in mortgages, are being eyed by investors with something between caution and disdain. Equity prices of the two mortgage giants have plummeted and borrowing costs have been rising.

The level of “implicit” government guarantee for the GSEs may soon be put to the test. To quell fears of a collapse of either or both of the GSEs, the Fed announced plans to expand discount window lending to Fannie and Freddie should it become necessary. An infusion of equity capital may also be offered to help bolster their long-term viability. What, if any, confidence investors will take from these moves remains to be seen and continued market volatility seems likely in the near term.

In addition to troubles at the GSEs, the demise of IndyMac Bank hit the news recently. While it may not be surprising that the mortgage division would succumb, especially given their Alt-A-heavy product mix, the collapse of the consumer bank was a shock to some. The FDIC has spent the last few days calming concerns of lost deposits at IndyMac and concerns of a larger collapse pending in the banking world. While most accounts at IndyMac would fall under FDIC insurance parameters, more bad news of any type is not what the market needs at this point. *-Lindsay Hill*

Topic of the Month: The Principles of Coissue Delivery

Compass Analytics held a Webinar on Tuesday, July 15th entitle *The Principles of Coissue delivery*. Apparently, there is a lot of interest in better understanding the Coissue delivery process as the session was heavily attended so thought it would be beneficial to share a summary of the call. Other industry experts joined the Compass team to make the session a good overview of how today’s contemporary Coissue works and what steps need to be taken to get started.

The Webinar focused on the two major players in the space that have consistently competitive pricing and use the program extensively with their Correspondents. Bill Petersohn, a representative from GMAC, was on the call and proved invaluable in describing some of the highlights of the GMAC 3D program. We also covered Chase’s Coissue Express program and described some of the differences of the two respective programs, and how they are meaningful to today’s pipeline hedger.

To summarize the programs, the GMAC 3D program allows mortgage bankers that are able to “potentially” commit 10 million a month to the 3D Coissue program so that they may use the 3D programs’ significant specific advantages over other delivery methods as a part of their overall best execution strategy. Some of the 3D program highlights are:

- Most terms and products available under Correspondent's Master agreement are available, including Fixed, Conforming ARMs, Conforming Jumbo, and more.
- A Whole Loan released sale combined with the benefits of a Coissue relationship - client sells loans to GMAC while maintaining a direct relationship with Fannie Mae.
- Servicing Released Premiums (SRPs) Pricing Grid updated weekly.
- Complete Agency Master Credit, waivers, and guarantee fee.
- Full funding within 48 hours of loan submission.
- No set minimum commitment amount.
- Electronic delivery through Loan Delivery and a servicing data file sent directly to GMACB.
- Collateral-only delivery for funding.
- Operational efficiencies - loans under MBS are sold in bulk instead of individually.
- Separate settlement of loan level price adjustments/risk-based pricing adjustment and guarantee fees with Fannie Mae for MBS deliveries. Risk-based pricing adjustments are deducted from purchase proceeds for Whole Loan deliveries.
- No custodian fees incurred by customer for MBS delivery.
- No Funding Fees.
- S/S and A/A remittance types available for 3D Whole Loan sales, and S/S for MBS.

In comparison, Chase's Coissue Express program looks to be very similar to GMAC's, but there are a few differences some of which include:

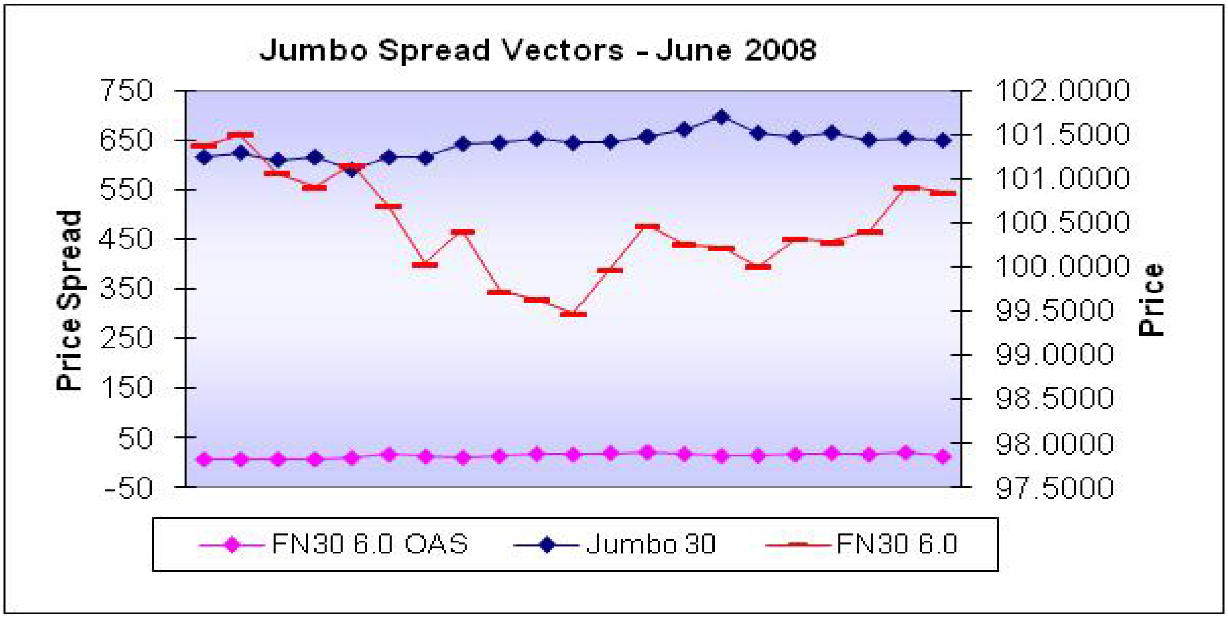
- Chase is looking for commitment amounts of more than $20 million per month with a contract in place for several months,
- the early funding program is handled by them, and not the GSE,
- SRP prices tend to be calculated in a more math intensive fashion with more grids, adjustors, and the like, and
- There are potential pair-off fees if the program's minimum commitment numbers aren't met.

The underlying message about contemporary Coissue is that it should be used to establish a valuable relationship with the Agencies if you, as a mortgage banker, don't have one already. It should also be used as another tool in your best execution arsenal to maximize the intrinsic value in your pipeline. The most effective ways to utilize Coissue is to maximize specified pools, deliver later into securities than you can for AOT, and to realize the advantages for warehouse liquidity if you need it. *–Brandon Case*

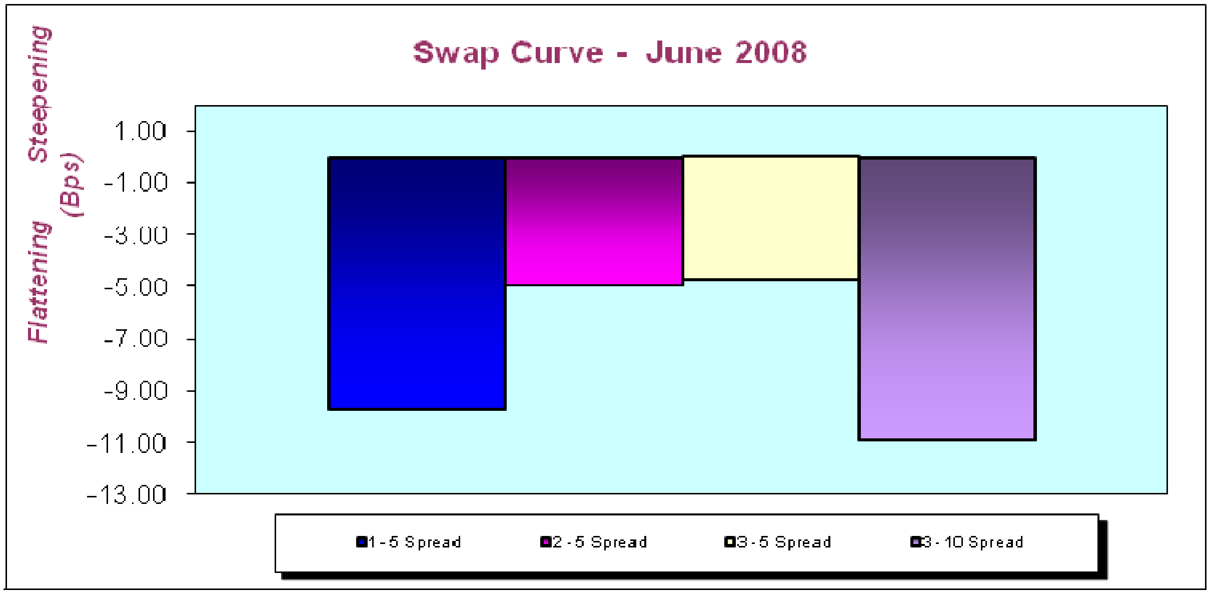
For more information, or to receive a copy of the Compass Coissue presentation, please email Kellie Kramer at kkramer@compass-analytics.com

Alt A and Jumbo Spreads

Jumbo spreads experienced relatively range-bound trading. FN30 6.0's chopped around in another volatile month. The range widened in June (203bps vs. 178bps in May), as there continued to be pronounced swings. The month started off with Nonfarm Payrolls printing at -49K (-20K in May) vs. an expectation of -60K. The unemployment rate jumped to 5.5% from 5.0% in May, causing some economists to claim that the economy is continuing to fall into a recession. Bad news continued to come from corporate America, especially entities tied to the housing industry. Lehman announced a \$2.8B 1Q loss and announced plans to raise an additional \$6B of capital (they have already raised \$8B since February); Thornburg declared a \$3.31B loss due to real estate write-down's; AIG announced a \$5B write-down. The totals stand at \$410B in total write-down's and \$325B for total capital raised for financial firms worldwide. Inflation concerns continued as the Fed minutes were relatively hawkish in the face of increasing commodity prices (Oil went from \$127/barrel to \$140/barrel), 4.2% y-o-y increase in CPI, and Import prices up 17.8% y-o-y. The Reuter's Commodity Index, which tracks 19 different commodities, showed a 29% jump for the first half of 2008, the largest jump since 1973. All-in-all, not a very positive outlook for the economy, as evidence of stagflation continues to mount. In treasuries, the bear-flattening sell-off left 2-10's at 135bps at the end of the month (started month at 145bps). Although spreads appear to have leveled out, there is still a great deal of volatility in the market that could push spreads wider. *–Dave Bennett*

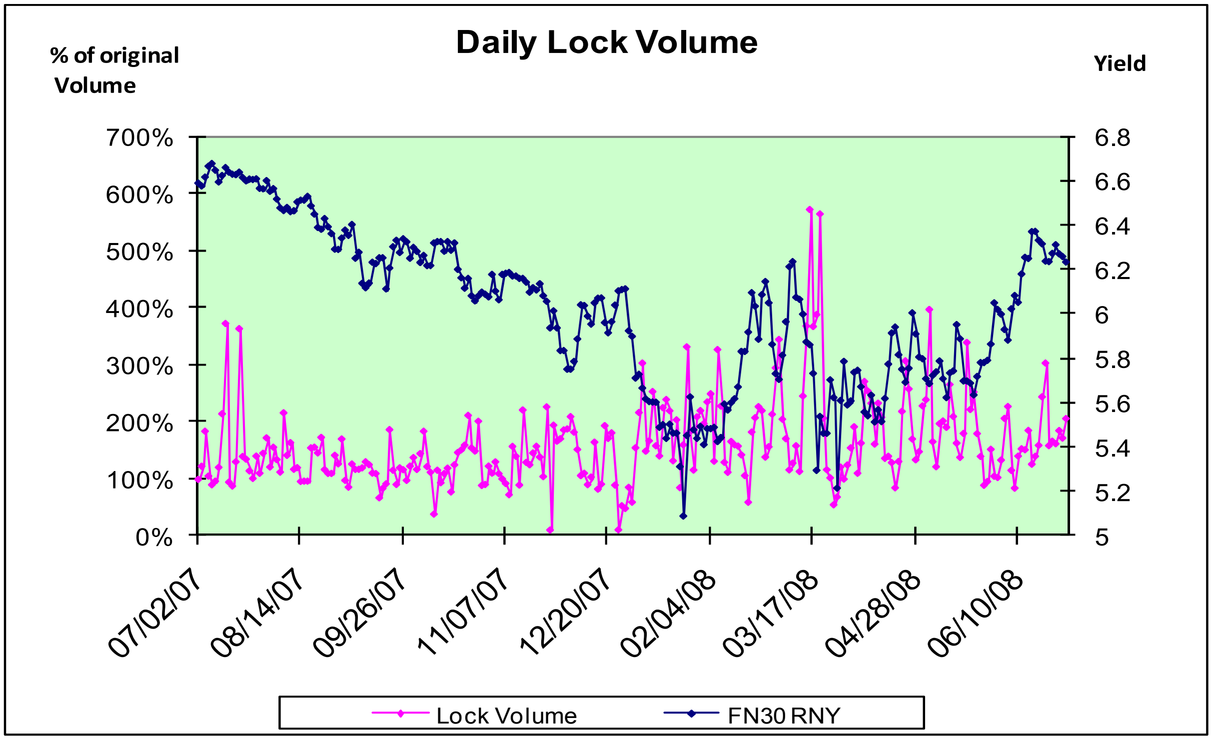


Swap Curve Analysis



Short term swap yields were up in June while long term yields were close to unchanged leading to a flatter swap curve. Though the curve did not shift dramatically, volatility persisted with plenty of Fed-speak from Bernanke and Co., warnings of fresh write-downs and further deterioration in credit markets. By the end of June, the 2-10 Swap spread tightened about 11 bps, leaving the spread at about 113 bps.
-*Virgil Caselli*

Production Index



Production in June decreased while rates traded in a wider range (49bp range in June versus 43bp in May), with the average yield increasing sharply month over month. Average volume for the month was 167% of our base volume (vs. 192% in May) ranging from a low of 83% to a high of 303%. The average yield on the FN30 RNY in June was 6.19% (vs. 5.77% in May) ranging from a low of 5.88% to a high of 6.37%. *-Dave Bennett*