

## The Month in Review

October 2008

### What's New?

We look forward to seeing many of you at next week's National MBA Conference!

This month, Compass's monthly Webinar training series will include the following sessions:

- For Compass customers, we will be holding a report training session covering our *Hedge Buckets, Duration Ratio and Best Execution Change reports*. This will include discussions on best execution and corresponding hedging techniques and implications for Secondary Marketing. This will be held on Tuesday, October 28<sup>th</sup> at noon PT
- *Originator Profitability Analysis and its Implications on Secondary Marketing Profit and Loss* to be held on Wednesday, November 12<sup>th</sup> at noon PT.

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.

### New in CompassPoint™!

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

- Delinquency/Foreclosure Roll Matrix
- Integration to AD-CO's Loan Dynamics Credit Model
- Integrated Rate Scenario, Non-Parallel Shocks to Price Curves, Pipeline and Hedge Templates
- Multiple Column Vector and 2D Num/Text Adjustors for MSR/WL Cash Flows
- Improved Cloning – Index Propagation
- Improved Error Trapping on MSR/WL Model Adjustors
- Expanded Cash Flow Output

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).

## **Press Release: MountainView Servicing Group Completes Transition to Compass Analytics MSR Valuation Analytics**

**Denver, CO - October 15, 2008 - MountainView Servicing Group**, a Denver, Colorado-based provider of servicing analytics and trading services and Compass Analytics, a San Rafael, California-based provider of mortgage valuation and risk management analytics, announced today that **MountainView** has completed its transition to Compass's MSR Valuation Analytics (CompassPoint™). MountainView provides MSR valuations for over 100 servicers and now employs CompassPoint™ to provide those valuations.

Compass's MSR Valuation Analytics, which were developed with significant input from **MountainView**, were released as a fully integrated part of Compass's mortgage analytics platform CompassPoint™. The MSR analytics include both static and option adjusted spread (OAS) valuations, allow analysts to use loan and/or cohort-level adjustors on all models, include integration to industry-standard prepayment and credit models, integrate accounting functionality, provide robust attribution analysis and include speed-enhancing parallel processing. The full integration into CompassPoint™ provides access to Compass's file mapping, audit and conversion tools, pipeline and whole loan valuation analytics, and comprehensive query and reporting tools. The MSR Analytics are available for hosted and installation implementations.

Commenting on his company's full adoption of CompassPoint™, MountainView President Mark Garland said, "We are really excited to have completed our transition to CompassPoint™. CompassPoint™'s market-leading analytics and attribution analysis, packaged with its intuitive, easy-to-maintain interface, will significantly enhance the service and analysis we can provide to our customer base. Compass has truly set a new bar in MSR Valuation analytics with both functionality and service."

Compass's Managing Partner, Rob Kessel added "Compass is extraordinarily pleased with MountainView's ongoing feedback and implementation of CompassPoint™. Compass will continue to differentiate itself in the marketplace by providing powerful analytics within an intelligent and user-friendly framework, and deliver those analytics with exemplary service levels."

**MountainView** provides analytic and trading services to financial institutions in mortgage-related business lines. MountainView's extensive client list represents a cross section of mortgage sector participants ranging from small community banks and mortgage companies to regional money center banks, insurance companies, and Wall Street investment firms. Building on a long-standing commitment to provide its clients with high quality whole loan and mortgage servicing rights, analytics and advisory services, MountainView is also dedicated to continuing its presence as a principal buyer and seller of loans in the secondary market. For more information about MountainView, please visit its website at <http://www.mvccg.com> or contact Mark Garland at 303-633-4718 or [mgarland@mvccg.com](mailto:mgarland@mvccg.com).

**Compass Analytics** provides valuation and interest rate risk management solutions to mortgage capital markets participants. Compass Analytics licenses its software CompassPoint™ to mortgage traders, originators, servicers and investors in order to provide unparalleled analysis. CompassPoint's™ loan-level models, integrated file mapping, market and credit inputs, whole loan and structured cash flow analysis and reporting capabilities give CompassPoint™ users the competitive advantage in evaluating

all mortgage collateral. In addition to licensing CompassPoint™, Compass uses CompassPoint™ internally to provide third party valuations as well as outsourced hedge execution services, both of which draw on Compass' considerable expertise and access to market color. For more information about Compass Analytics, please visit its website at <http://www.compass-analytics.com> or contact Rob Kessel at 415-925-2812 or [rkessel@compass-analytics.com](mailto:rkessel@compass-analytics.com).

### Market Update

The last month has provided more new information for the markets than is easy to summarize in a few paragraphs. The Treasury Department got the bailout bill they were looking for, with the possible exception of the extra spending Congress felt it necessary to tack-on. My guess is: the reaction the Treasury and Congress received from investors upon passing the bill is not quite what they expected. The Dow Jones Industrial Average has lost about 15% of its value since the passing of the bill and most interest rates have pushed higher, even with the Fed and other central banks cutting short-term rates.

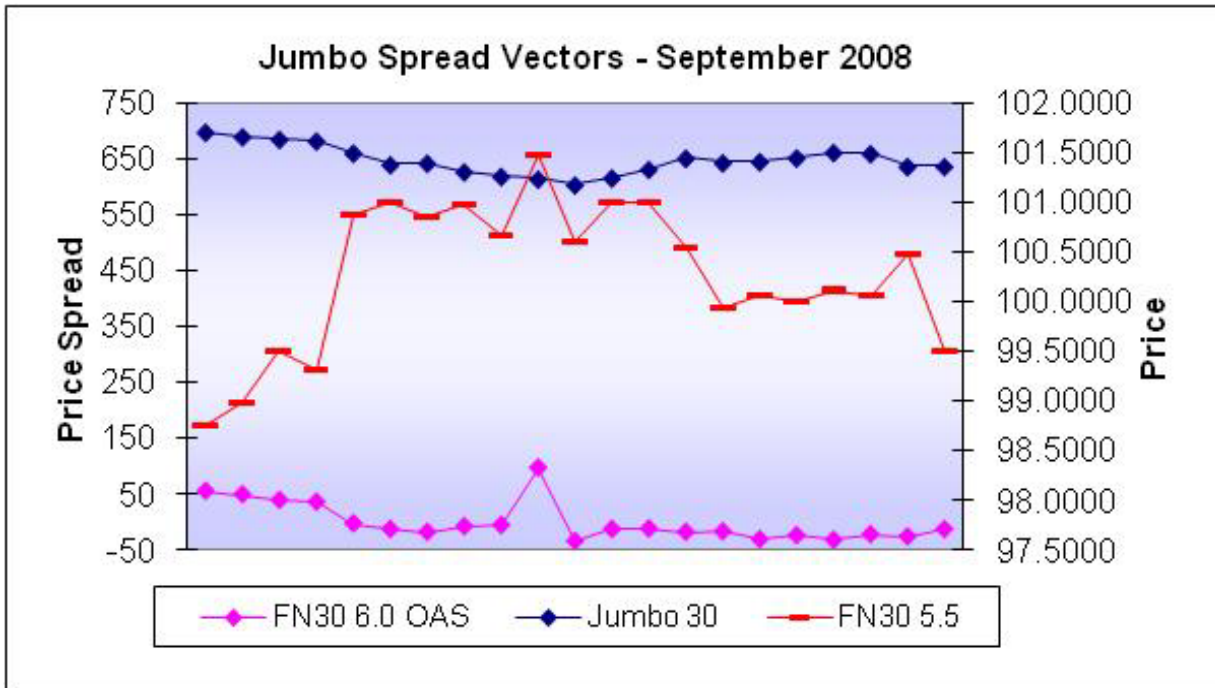
Ultimately, those with capital to lend are still afraid to lend. It will likely take more than the purchase of distressed assets to free-up the credit markets. As has been the case in some parts of Europe, the U.S. federal government may need to provide more broad-based guarantees for banks and direct injections of capital in return for preferred shares. Even this may not loosen credit much unless the capital injections come with some requirement that the capital is used to lend.

The standard, monthly economic releases have not had much effect in this environment. Job growth continues to be weak and may be weakening. Inflation readings have been moderating for the most part and retail sales have been falling, even with gasoline prices coming down. Maybe the next month will provide more clarity but it looks like we've still got a ways to go before confidence returns in any significant measure.

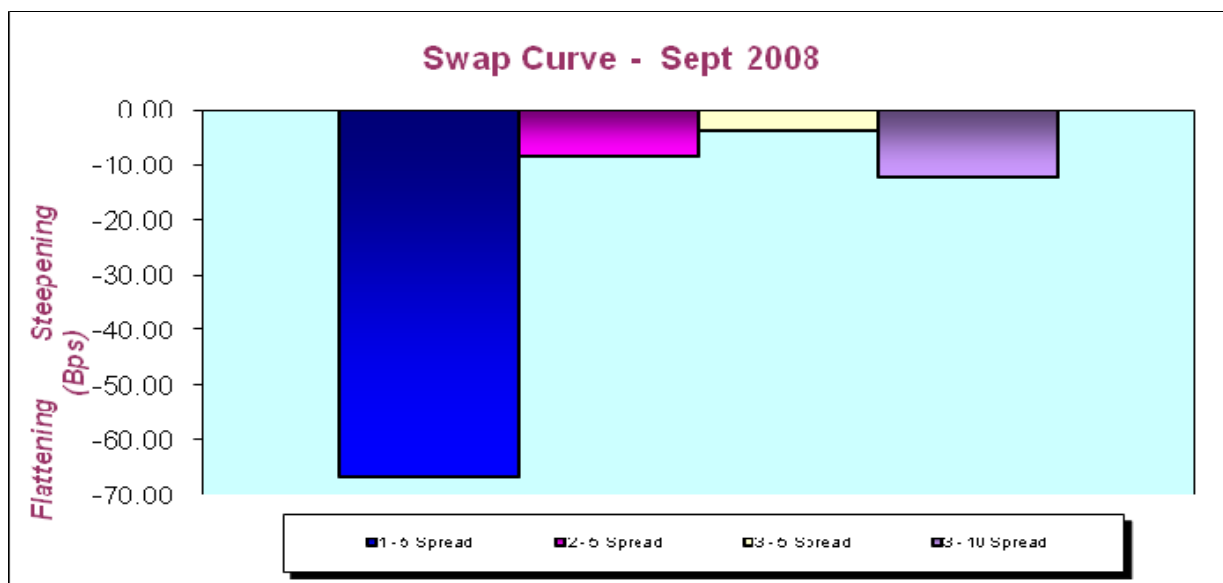
### Alt A and Jumbo Spreads

In what will go down as one of the most dramatic months ever in the financial markets, the landscape changed a great deal. The month started off with Nonfarm Payrolls printing at -84K (-60K in August, revised down from -51K) vs. an expectation of -75K. The unemployment rate jumped to 6.1%. After struggling for months to raise capital, and with their stock prices floundering, Fannie and Freddie were placed under conservatorship by Treasury Secretary Paulson over the weekend of 9/6-9/7. This caused a 50 tick upward move in TBA's when markets opened on Monday. Lehman's stock started to get run on 9/9. They decided to move up the announcement of 3Q earnings and declare a plan to avoid a collapse, including seeking a partnership. After talks with Bank of America and Barclay's (among others) failed, Lehman declared bankruptcy on 9/14. Merrill Lynch announced on the same day that they would be merging with Bank of America. After a series of downgrades, AIG was unable to come up with margin calls, forcing the government to bail them out on 9/16 with an \$85B loan. 177 people writing credit default swaps brought down this 15,000 person insurance giant. Morgan Stanley and Goldman Sachs started to have their stocks torn apart and despite a short-sale ban, they were forced to apply for, and become banks on 9/18, ending the securities firm era. Warren Buffett bought \$5B in Goldman preferred stock later that week. A \$700B government package to buy distressed mortgage assets was proposed

by Treasury Secretary Paulson. It was voted down by the House of Representatives, had \$140B of pork added, and was later passed. Washington Mutual was then seized by the FDIC, with the branches and deposits being taken over by JP Morgan. Citi and Wells Fargo are in a fight to take over either all or part of Wachovia. All-in-all, there is a pretty bleak picture for the economy going forward. Jumbo spreads experienced relatively range-bound trading. FN30 5.5's chopped around in a wide range (272bps vs. 187.5bps in August), as there continued to be pronounced swings. In treasuries, the bull-steepening rally left 2-10's at 186bps at the end of the month (started month at 144bps). 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*

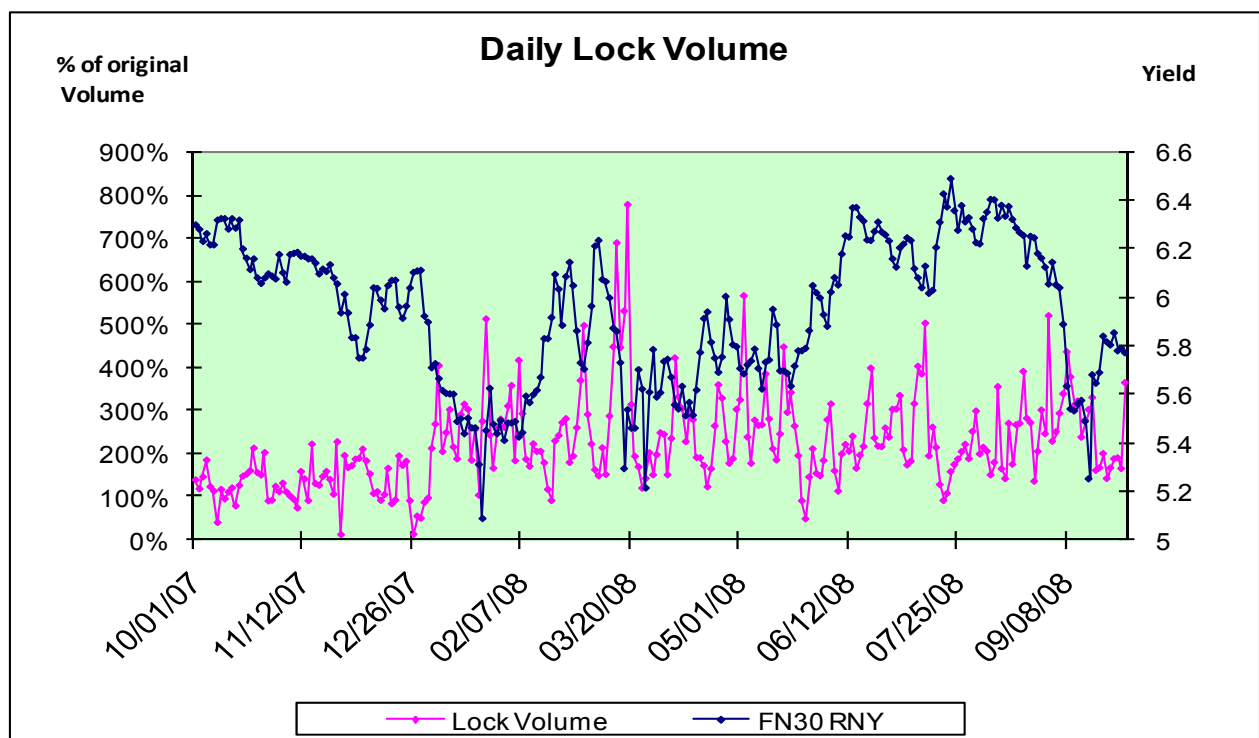


## Swap Curve Analysis



Swap yields were up across the curve in September with a massive move at the front end. One year LIBOR surged 75 bps as the crisis deepened – Fannie, Freddie and AIG were taken under government control, Lehman Bros. failed and banks refused to lend to each other. The 1-10 spread tightened 75 bps, to 53 bps, as the 10 year swap was up only marginally for the month. –*Virgil Caselli*

## Production Index



Production in September increased while rates traded in a much wider range (89bp range in September versus 35bp in August), with the average yield decreasing month over month. Average volume for the month was 258% of our base volume (vs. 248% in August) ranging from a low of 140% to a high of 435%. The average yield on the FN30 RNY in September was 5.73% (vs. 6.27% in August) ranging from a low of 5.25% to a high of 6.14%. -Dave Bennett