

The Month in Review

January 2009

What's New?

Stay tuned for Compass's Press Release on *Hedging Par Rate Adjustors* and if you are familiar with, or have experienced first-hand, how adversely you can be affected by par rate adjustors, be sure to sign up for the Webinar session on the topic. Compass will also be hosting another session with guest speaker, Larry Charbonneau, covering Mortgage Banking M&A Topics with some additional conversation on warehouse banking. The date and time for both sessions will follow in the next week.

New in CompassPoint™!

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

- Pipeline SRP/MSR Hedging Analytics and Reporting
- ITM Adjustors for Deriving SRP Adjustment Changes to Pullthrough
- Loan-Field Scaling of Monthly and Bucketed Monthly Vector MSR/WL Adjustors
- RPX Forward Contract Hedge Template and Scenarios - BETA
- AFT Credit Model Integration – BETA
- Expanded Hedge Template Analytics – PV01 and dPV01 Across All Hedges
- Convexity Adjustor to Price Line Duration Derivation & Price Line Benchmark Capability
- Expanded Stratification Excel Formatting Options
- Expanded Aggregation and Assumption Reporting 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

The last couple of weeks has seen the Treasury begin to make good on its promise to purchase agency MBS. Just as market participants rubbed the New Year's revelry from their eyes, Fed buyers began purchasing Fannie and Freddie MBS, starting another round of price increases. By week's end, The Fed had bought approximately \$10.2B worth, leaving about \$490B left in their 6-month plan to push mortgage rates lower.

This, of course, presents a double-edged sword for originators: lower rates mean more lock volume and, recently, higher profit margins priced into their loans. On the other edge is falling pull through percentages and the falling prices paid for servicing rights. For servicing-released sellers, drops in par rates and increasingly painful note rate level servicing premium adjusters have worked to sap the profits built into the rate locks. Ultimately, lower rates should help cash-strapped borrowers and provide some

footing for a recovery in housing. But quick drops in rates make it very difficult for originators to turn a profit. It would behoove the Fed to tread carefully in their MBS buying program, and to some extent, they have so far. But, if they intend to purchase another \$490B in MBS over the next 5 ½ months, they will likely have to step up the pace at some point. It won't help to have low rates if the companies tasked with providing those rates to borrowers are killed-off by sharp decreases in rates and sharp drops in pull through percentages and servicing values. *—Lindsay Hill*

Radar Logic Corner

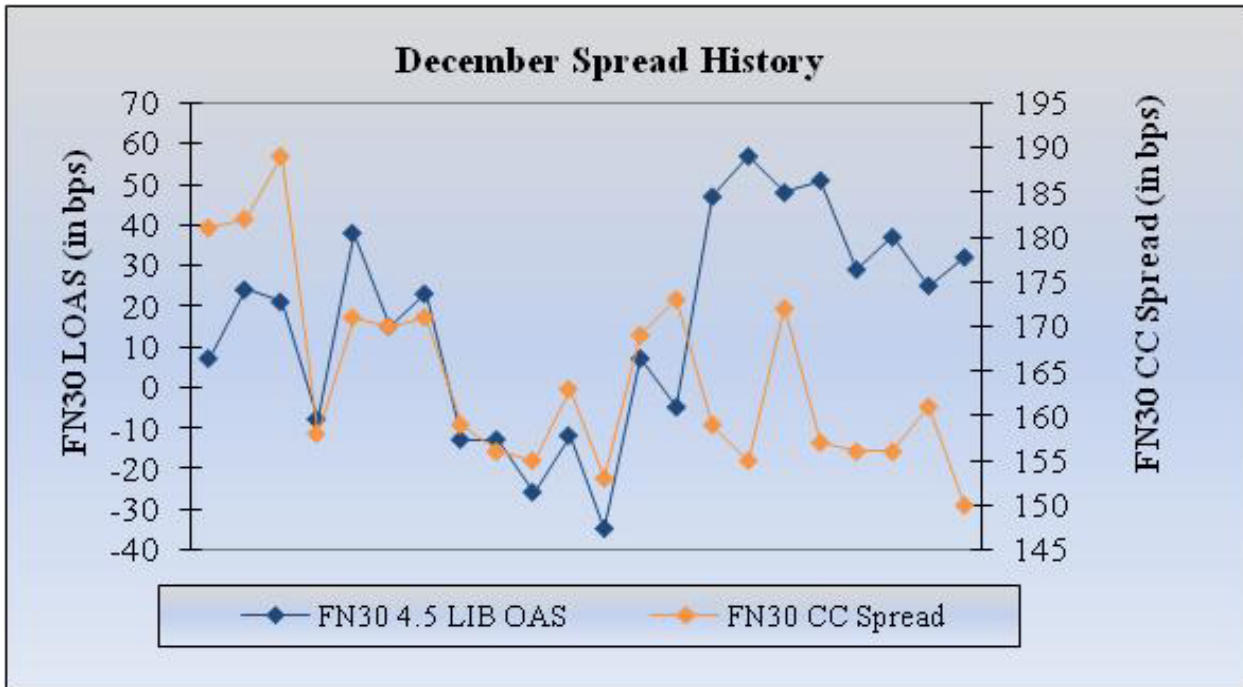
Radar Logic has released its review of the housing and residential property derivatives markets in 2008. The report is accessible via the following link:

<http://radarlogic.com/research/RPXYearInReview2008.pdf>.

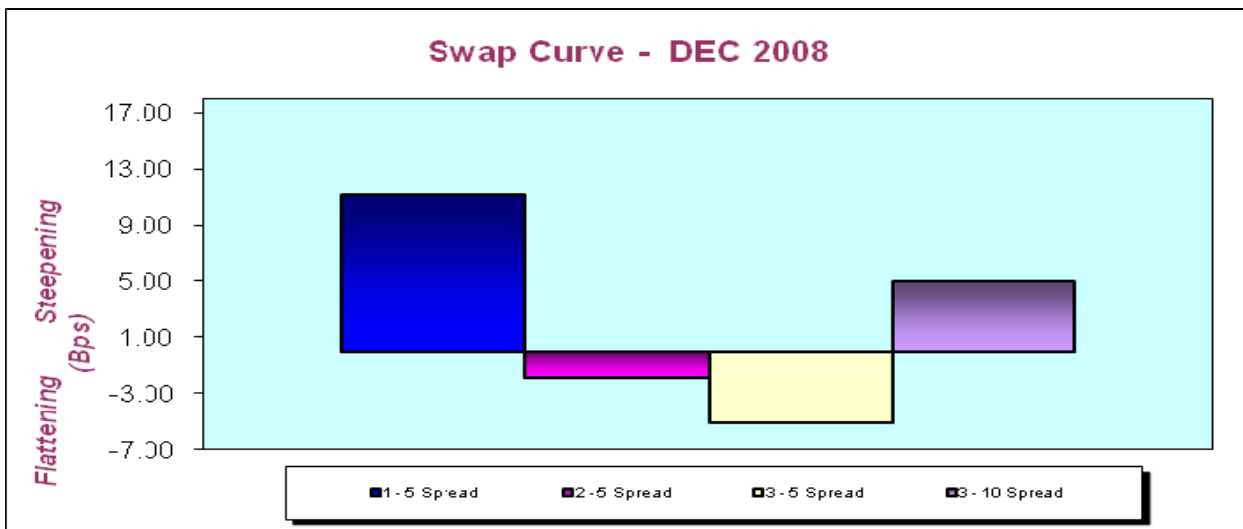
For more information on Radar Logic and the RPX, including licensed dealers, please visit www.radarlogic.com.

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 -533K (-320K in November, revised down from -240K) vs. an expectation of -335K. The unemployment rate jumped to 6.7%. Different governments used varying methods to combat the volatility: China dropped rates for the 5th time in 3 months by 27bps to 5.31%; Ireland used \$7.8B to bail out its 3 largest banks: Anglo Irish Bank, Allied Irish Banks, and Bank of Ireland; the ECB cut rates by 75bps to 2.50%; the IMF provided a \$2.5B lifeline to Belarus; the Fed set their target rate to between 0% and .25% from 1%; the Fed approved GMAC to become a bank, and then provided them with \$6B of TARP money; and President-elect Obama announced, and began to push for, a stimulus package which could amount to \$850B. The Federal Reserve also followed through on their promise to start buying Mortgage Backed Securities in the beginning of January (purchases will amount to \$500B through June). Earnings continued to be poor: Goldman posted a \$2.12B 4Q loss; Morgan Stanley announced a \$2.2B loss; and, after much debate, President Bush declared that a \$15B loan would be provided to GM and Chrysler to get them through 3/31/09 to give them time to restructure. Worldwide writedowns now stand at \$996B and firms have raised \$939B 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 145bps at the end of the month (vs. 183bps at the beginning of the month). *—Dave Bennett*

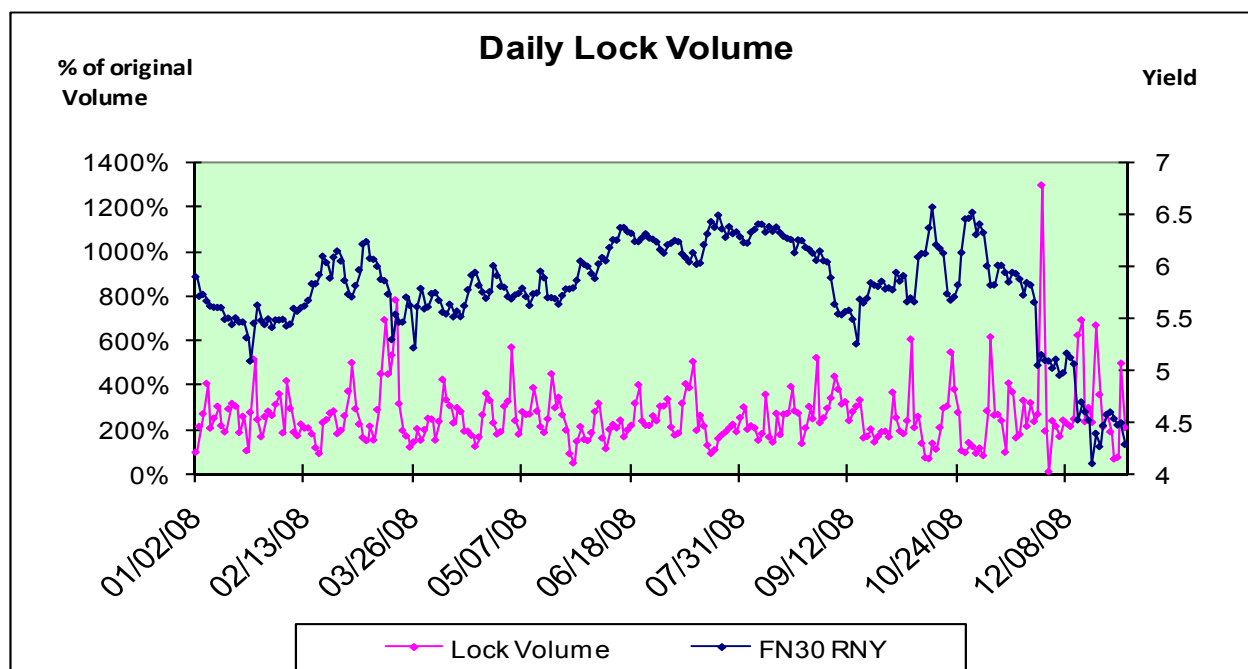


Swap Curve Analysis



Actions by the Fed and Treasury appear to be having a significant impact on credit markets as LIBOR/Swap yields dropped sharply across the curve for the second consecutive month. The curve did not shift as violently as in November as the move down was relatively consistent across maturities. The Ten Year Swap fell 55 bps and One Year LIBOR shed 76 bps, leaving the 1-10 spread 21 bps wider at 59 bps. *-Virgil Caselli*

Production Index



Production in December decreased while rates traded in a tighter range (106bp range in December versus 136bp in November), with the average yield decreasing month over month. Average volume for the month was 278% of our base volume (vs. 309% in November) ranging from a low of 8% to a high of 688%. The average yield on the FN30 RNY in December was 4.68% (vs. 5.80% in November) ranging from a low of 4.10% to a high of 5.16%. *-Dave Bennett*