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The Month in Review

March 2009

What's New?

Compass will be hosting a joint Webinar in the next few weeks with our partner Radar Logic on *RPX Property Value Hedging*. The details as to exact date and time will be forthcoming and for more information on Radar Logic, please visit their website at www.radarlogic.com.

New in CompassPoint™!

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

- Additional Foreclosure Curve Conventions/Options
- Enhanced Integrated MSR & WL cash flows for whole loan valuations.
- Volatility Normalization Function for LMM Rate Model
- Historical Batch Tool
- Cash Flow Header Builder
- Expanded Batch Scenario (Results Only) Mode
- Additional Price-Line Duration Derivation Modes
- ADCO & AFT Vector Adjustors
- Pooling Performance Enhancements and User Options

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

Finally, something to sink our teeth into other than a crumbling job market, skyrocketing foreclosures and disappearing consumer confidence. Based in part on a March 12 hearing, the Financial Accounting Standards Board (FASB) told a House subcommittee that new guidelines regarding mark-to-market accounting of derivative assets would be forthcoming in three weeks. Originally, new mark-to-market rules were expected to be delivered in June but it looks like FASB will be able to push that forward by about two months. Congress waived the threat of new legislation to push FASB to deliver the new rules more quickly. New legislation could potentially have overridden FASB in getting a relaxation of the accounting rules.

Simply put, mark-to-market accounting rules, as enforced by FASB and the SEC, require companies to value assets based on the price they would bring in the market today. This does provide good information for investors and regulators and prevents businesses from assigning any value they wish to their held assets. The problem lies in the valuation of assets where there is no current market.

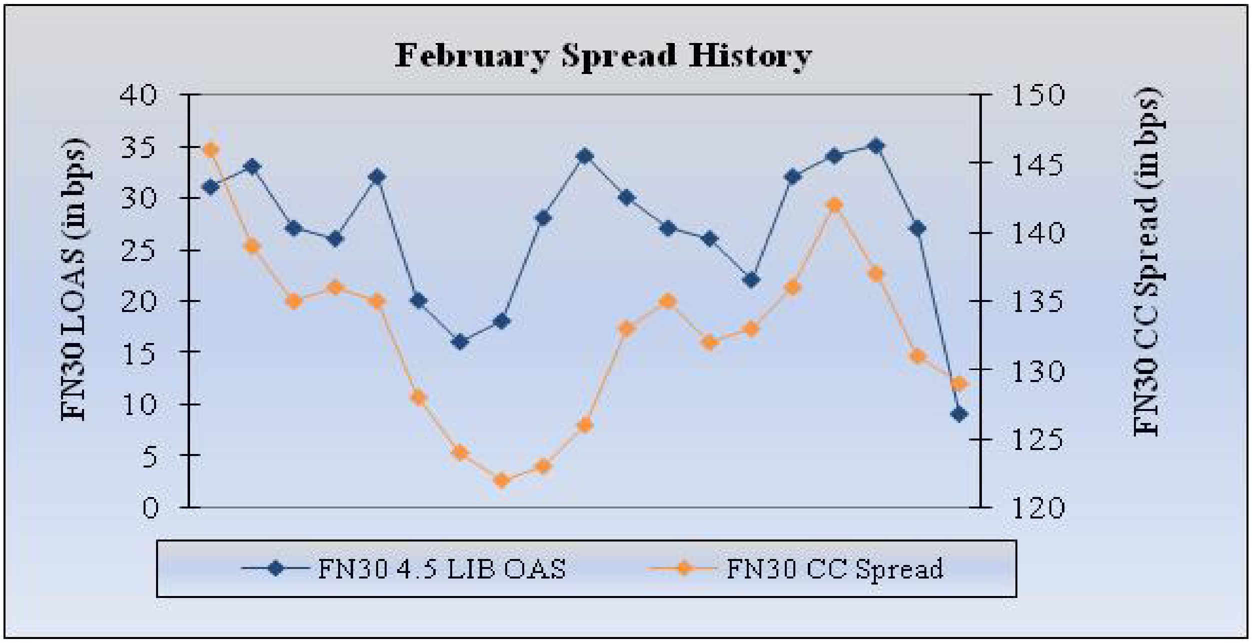
Companies are forced to right down the value of assets that they have no intention of selling and may otherwise be performing reasonably.

While it's assumed that the new rules will provide some relaxation of the strict interpretation currently in place, it's not clear what form that relaxation will take. To completely remove mark-to-market accounting would create additional uncertainty for investors and allow for easy abuse of financial reporting.

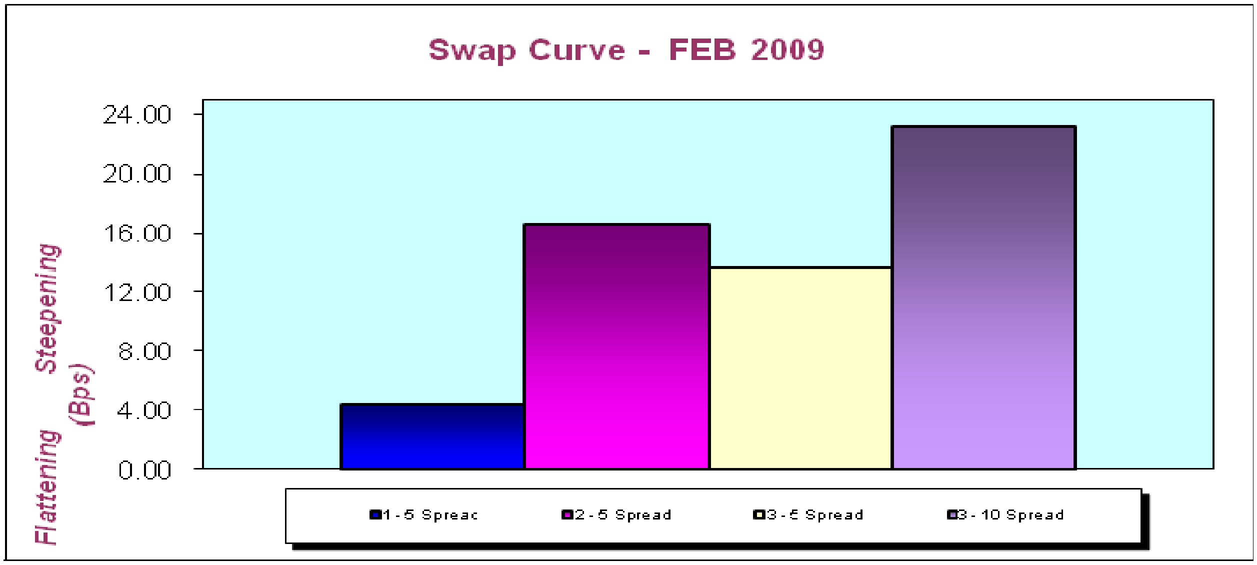
It will be interesting to see what approach FASB takes. They want to provide clarity in valuing assets in a tough market without completely giving up a standard which works reasonably well in most markets. As FASB Chairman Robert Hertz describes it, "the fact that fair value measures have been difficult to determine for some illiquid instruments is not a cause of the current problems but rather a symptom of the many problems that have contributed to the global crisis." Fair enough. But most of us have already agreed, possibly to the tune of trillions, that we're in a situation where symptoms, as wells as causes, must be addressed. *–Lindsay Hill*

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 -598K (-577K in January, revised down from -524K) vs. an expectation of -540K. The unemployment rate jumped to 7.6%, the highest in 15 years. Global growth continued to crater at the end of 2008 as US GDP contacted by 6.5% in the fourth quarter, the largest pullback since 1982; the UK's GDP declined by 1.5%, the worst drop in 15 years. Different governments used varying methods to combat the volatility: the Bank of England lowered rates by 50bps to 1%; the ECB left rates unchanged at 2%: the US Congress passed a stimulus plan that came in just under $800B; and President Obama announced a $50B plan to help stem foreclosures. Treasury Secretary Geithner also unveiled the starting plans to help curb the financial crisis. Earnings continued to be poor: GM declared a $9.6B 4Q loss ($30.9B total loss for 2008) and requested another $16+B in government aid; Ambac posted a $2.34B 4Q loss; AIG requested another $60B from the Treasury and asked for the outstanding preferred shares to be converted to common stock; and Swiss Re asked Warren Buffett for $2.6B after losing $1B. Worldwide write-downs now stand at $1,233B and firms have raised $1,019B 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 bear-steepening sell-off left 2-10's at 204bps at the end of the month (started month at 183bps). *–Dave Bennett*

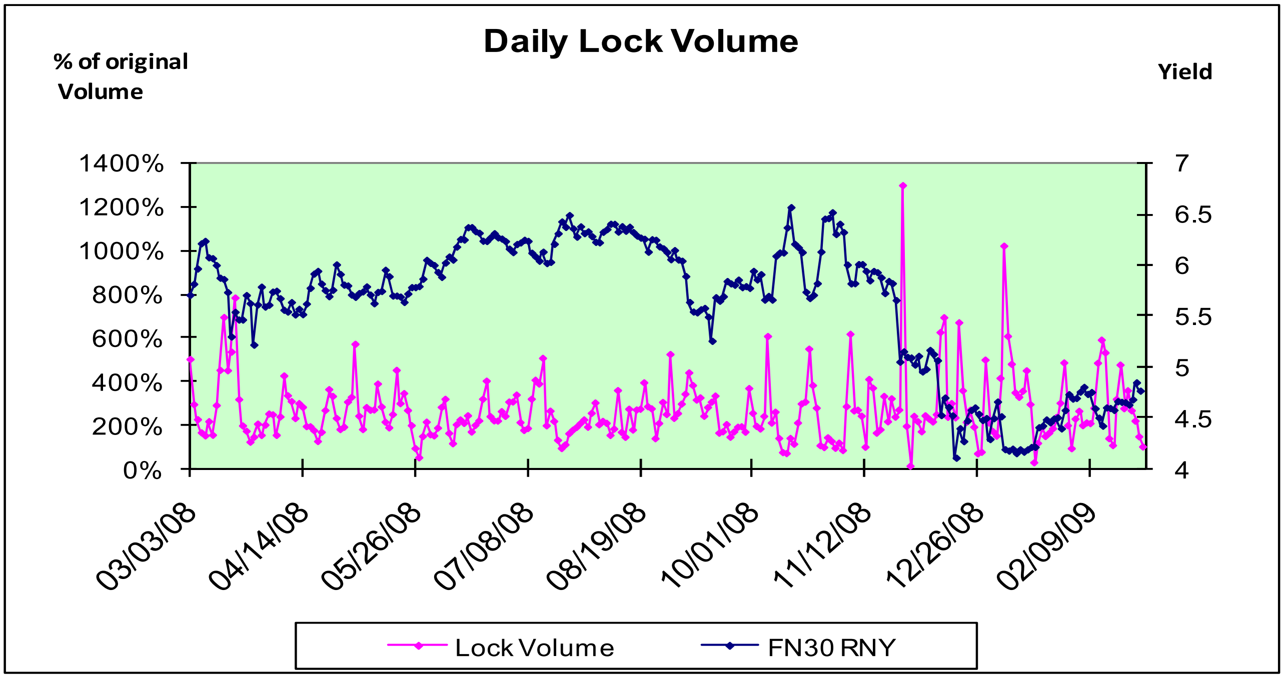


Swap Curve Analysis



The LIBOR/Swap curve continued its steepening trend in February, though to a lesser degree than January and with less volatility versus the past several months. The front end of the curve was relatively stable while longer tenors picked up yield. The Ten year swap yield gained 28 bps while One Year LIBOR edged 14 bps higher, leaving the 1-10 spread 14 bps wider at 123 bps. *–Virgil Caselli*

Production Index



Production in February decreased while rates traded in a tighter range (43bp range in February versus 58bp in January), with the average yield increasing month over month. Average volume for the month was 270% of our base volume (vs. 313% in January) ranging from a low of 88% to a high of 585%. The average yield on the FN30 RNY in February was 4.66% (vs. 4.37% in January) ranging from a low of 4.41% to a high of 4.84%. *-Dave Bennett*