

The Month in Review

May 2009

What's New?

Compass is pleased to welcome Josee Sirois who recently joined Compass as a Financial Analyst. Prior to joining Compass, Ms. Sirois held positions as a Financial Analyst Intern at Merrill Lynch and as a Research Analyst in commercial real estate at Cushman & Wakefield. Ms. Sirois holds a B.A. in International Business from the Université du Québec à Montréal and an M.A. in Financial Economics from the University of San Francisco. During her Master's studies, she researched the housing wealth effect and the monetary policy response to asset-price bubbles, and received an Academic Excellence Scholarship from the Department of Economics. Ms. Sirois is fluent in English, French, and Spanish.

On the technology front, Compass has completed a major upgrade to its infrastructure and business continuity platform including implementing an off-site co-location back-up processing center in Ohio, dramatically expanding the performance and speed of its Hosted and Outsourced Application and Database Servers.

Compass will be joint hosting a webinar with Phoenix Capital discussing *Service Released/Service Retained Considerations*. Many originators who sell loans on a servicing released basis have experienced a significant drop in what aggregators are willing to pay for servicing rights (service release premiums). In this webinar, Phoenix will discuss the current state of the MSR market along with the analytics and other considerations when deciding whether to retain or sell servicing rights and Compass will talk about the analytics originators can use in determining which loans should be sold released versus retained on a day-over-day basis once the decision to retain a portion of the servicing rights has been made. The session will be held on *Wednesday, May 27th at noon PST* and will last for approximately one hour. There is no fee and the material is suitable for various levels of expertise so feel free to pass it on to anyone in your organization who may benefit. Compass's facility has limited connections so if you anticipate a few people from your office participating, it would be ideal if you could gather in a conference room. Please RSVP to kkramer@compass-analytics.com if you would like to participate and the WebEx link and conference call information will be sent to you the day before the session.

New in CompassPoint™!

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

- Improved Price Cap Duration/Convexity Derivation
- Enhanced Batch Scenario Derivation and Reporting
- Additional UI Capabilities on Swaption, Treasury Future and Treasury Future Options
- Simplified Hedge Key Rate Duration Derivation and Reporting
- Improved Excel 2007 Integration

- Additional Curve, Calibration UI in TBA Price Curve Generator

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

Over the last month, treasuries rates finally succumbed to the pressure of increasing supply. The trading range that kept the 10-yr yield between 2.50% and 3.00% for most of the last four months gave in to the pressure and the 10-yr yield pushed up to around 3.25%. In addition to supply concerns and future deficits, hints of an improvement in the economic picture are appearing. While the data remain weak on an absolute basis, more numbers are coming in better than expected recently, which is helping fuel a significant rally in the equity markets.

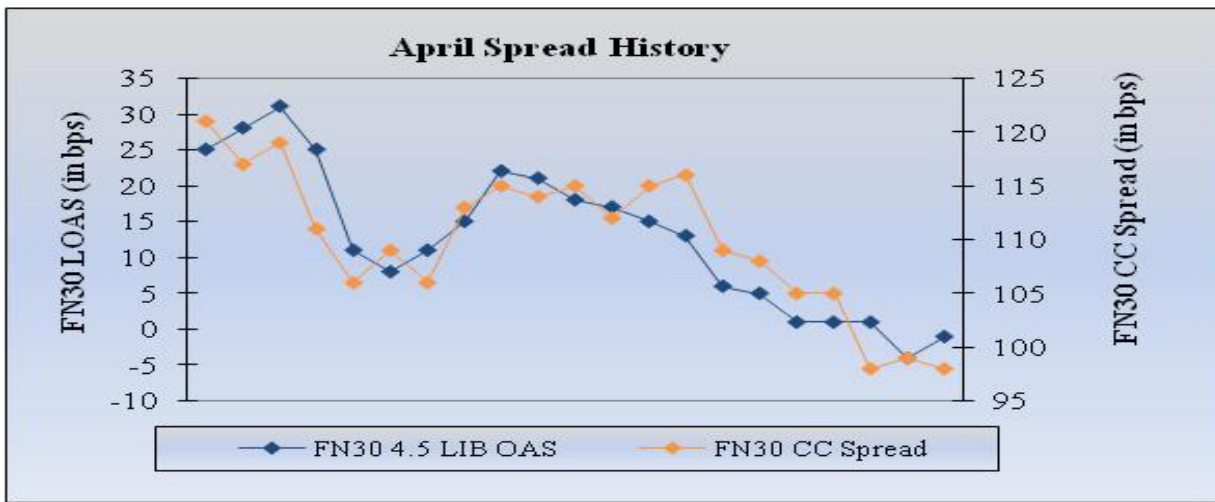
Even the employment data is beginning to show marginal improvement with April non-farm payrolls showing a slower pace of job losses and weekly new unemployment claims showing some slowing as well. On the gloomier side, while new claims and job losses look better than recent months, claims continue to climb and the unemployment rate has jumped to 8.9% as a slowing in new layoffs is combined with a continued lack of hiring. Even as new layoffs slow, increases in the unemployment rate may continue for several months as new hiring typically lags a rebound from a deep recession.

Mortgages have performed relatively well as treasury rates have climbed as consistent buying has tightened mortgage spreads and kept 30-yr conventional rates near 5.0%. That said, much of that buying has come care of the Fed and any slack in the Fed appetite is likely to be met with wider mortgage spreads and higher rates. *—Lindsay Hill*

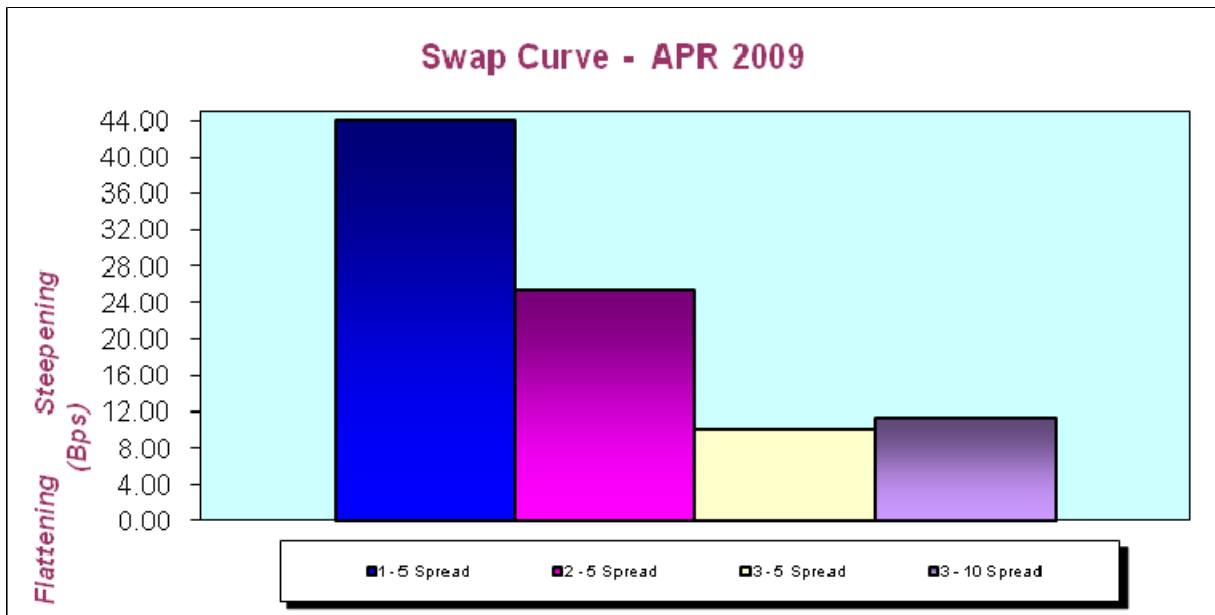
Alt A and Jumbo Spreads

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 -663K (-651K in March) vs. an expectation of -660K. The unemployment rate jumped from 8.1% to 8.5%, the highest in 25 years. After banks argued their point that mark-to-market rules were unfairly punitive with so many illiquid assets on the balance sheet, FASB rules were changed to allow companies more flexibility over which assets were deemed to be "illiquid". Earnings immediately changed for banking institutions. Wells posted net earnings of \$3B in the first quarter; JP Morgan reported 1Q net income of \$2.14B; Citi had 1Q earnings of \$1.6B; Bank of America announced 1Q profits of \$4.24B; and CSFB reported 1Q net income of \$1.7B. The car companies continued to struggle: Chrysler declared bankruptcy on 4/30 and won't pay back \$7B of government issued loans; GM may not be able to roll \$27B in unsecured debt on 6/1. Fed Chairman Ben Bernanke is cautiously optimistic about the economy going forward, saying that the "sharp decline" is slowing and the economy has taken the "first step" toward recovery. Worldwide writedowns now stand at \$1,408B and firms have raised \$1,132B in capital. 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 222bps at the end of the month (started month at 185bps). *-Dave Bennett*

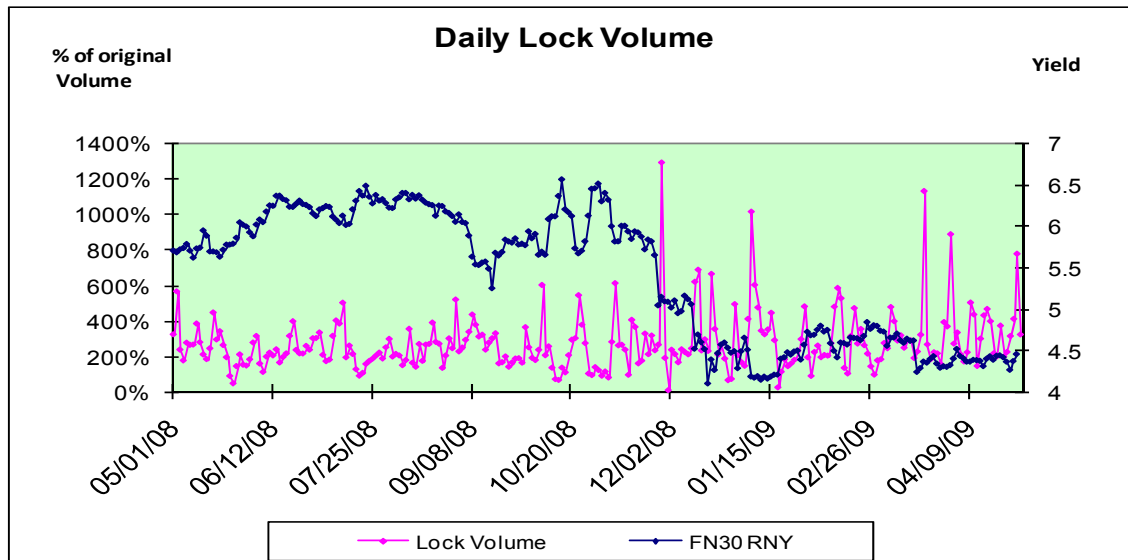


Swap Curve Analysis



In a relatively quiet month for rates the LIBOR/Swap curve steepened in April with the front end showing little movement and the five and ten year swaps adding about 35 bps each in yield. The 1-10 LIBOR/Swap spread widened 45 bps to finish the month at 136 bps. *-Virgil Caselli*

Production Index



Production in April increased while rates traded in a tighter range (25bp range in April versus 56bp in March), with the average yield decreasing month over month. Average volume for the month was 354% of our base volume (vs. 311% in March) ranging from a low of 144% to a high of 888%. The average yield on the FN30 RNY in April was 4.52% (vs. 4.53% in March) ranging from a low of 4.26% to a high of 4.52%. *-Dave Bennett*