

The Month in Review

November 2009

What's New?

October was a busy month for Compass Analytics. We successfully completed our Compass User's Conference at the San Diego MBA, completed the on-site component of our annual SAS70 audit and completed significant hardware and network upgrades. Coming up in November we are excited to announce a **Joint Webinar with Greystone Solutions**. The Webinar will be held on Friday, November 20th from 9:30-11am PST (12:30-2pm EST). The topic is "Selecting a Sub-Servicing Partner". If you would like to attend, please send an email to lpool@compass-analytcs.com. We will be sending out a WebEx link with log-in information to those of you who are interested next week. We look forward to chatting with you on the 20th!

New in CompassPoint™!

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

- LMM Model – Enhanced Volatility Normalization & Diagnostics
- New Auto-Pooling and Pool Statistics Flags
- Auto TBA Duration Calibration Tool
- Expanded Process Control Batch Controls
- What-if Hedge Tools
- Loan Trace Configured in Tree Structure

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

Interest Rates in October bounced off the lows observed early in the month and continued to grind higher into November. As mentioned in last month's commentary, 10-year notes were able to break their key support level of 3.28% in the first trading week of the month. However, following a poorly received 30-year treasury auction on October 8, a quick retracement back to the more familiar range of 3.3%-3.55% was observed for the remainder of October and early November.

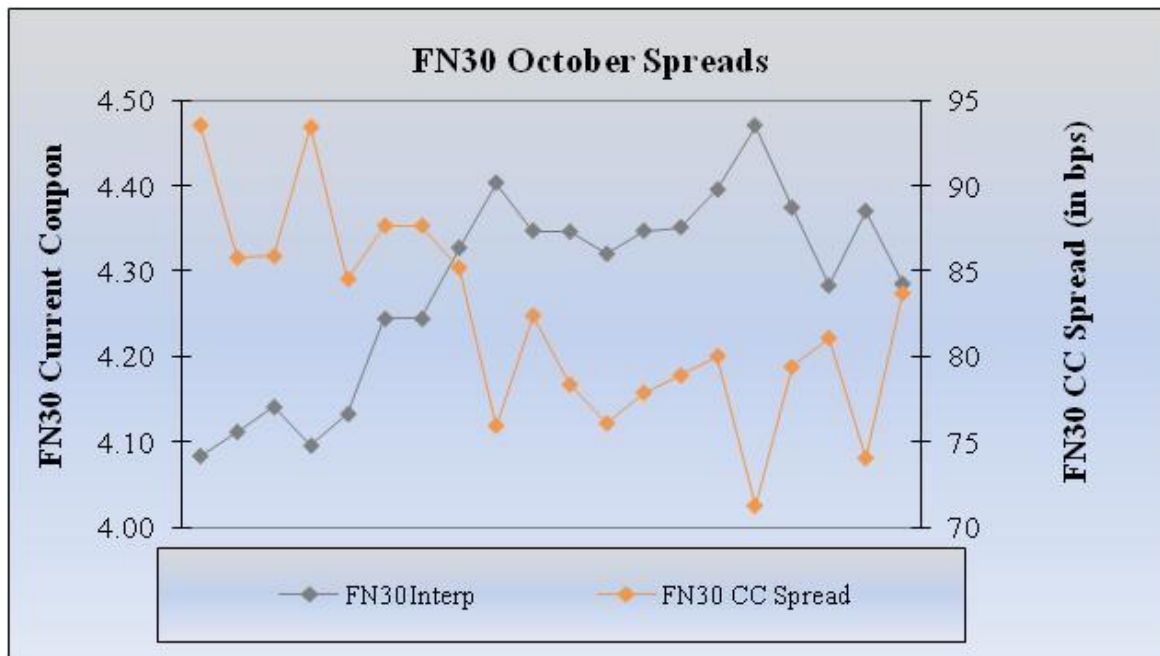
As the month progressed, additional economic data gave cause for the equity markets to rally, pushing the DJIA above 10,000, while adding to the downward pressure on bond prices. The Australian Central Bank became the first G20 country to raise their base lending rate, fueling assumptions that the Bank of England and the European Central Bank would be the next to begin tightening monetary policy. A slew of companies reported Q3 earnings that beat analyst's expectations and on October 29, Q3 GDP was reported at 3.5%, vs. -0.7% in the previous quarter, also surpassing analyst's expectations of 3.2% growth. This marks the first positive GDP reading since Q3 of 2008, but was somewhat discounted by traders, as many of the improvements to the economy came courtesy of the government stimulus package, including 1.01% of growth attributed to the now discontinued "Cash for Clunkers" program.

On November 6, the employment report was a grim reminder to investors that although overall economic growth has turned positive, the labor market is still in full recession mode. The Non-Farm Payroll number showed a decline of 190,000 jobs vs. a consensus estimate of -175,000. The real shocker was the jump in the unemployment rate to 10.2% vs. a consensus estimate of 9.9%, which marked the highest reading in 26 years.

The unemployment data coupled with a five month extension of the first-time homebuyer tax credit and assurances from the Fed Policy Statement that current economic conditions "are likely to warrant exceptionally low levels of the federal funds rate for an extended period of time" helped put a short-term cap on the upward move in rates experienced in October. What's becoming more and more evident is that although there are patches of light in the economic data, a slow recovery with a weak consumer sector seems to be the most likely scenario to pan out.

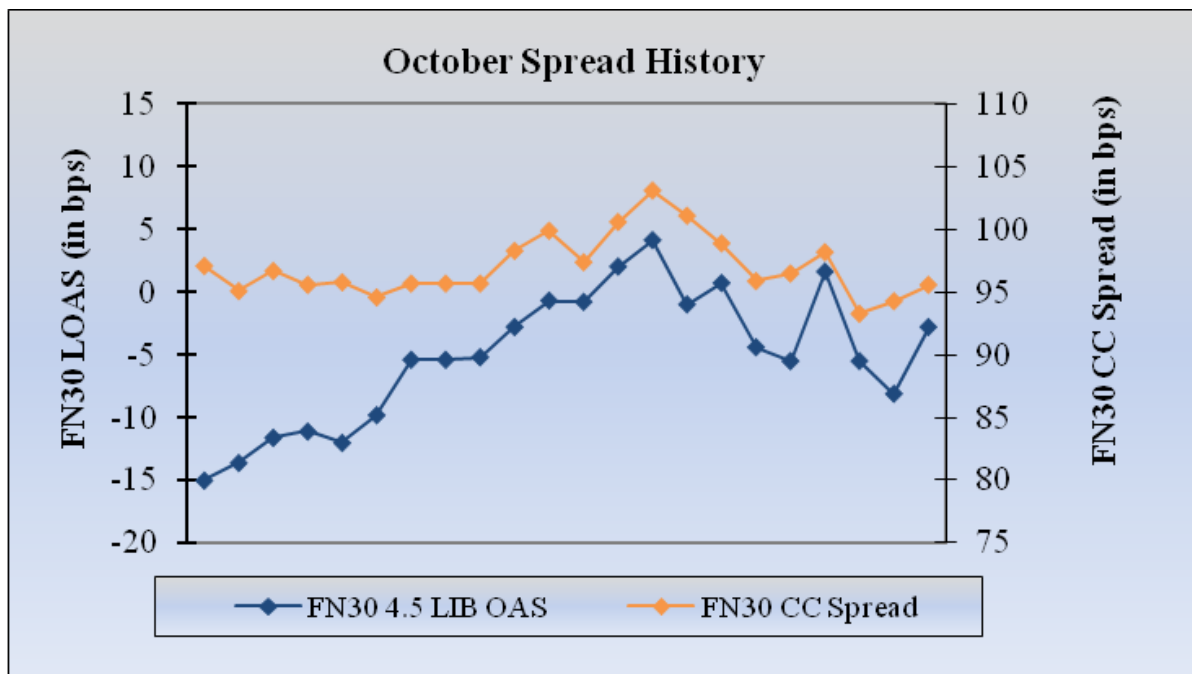
-Bob Gundel

Margin Tracker



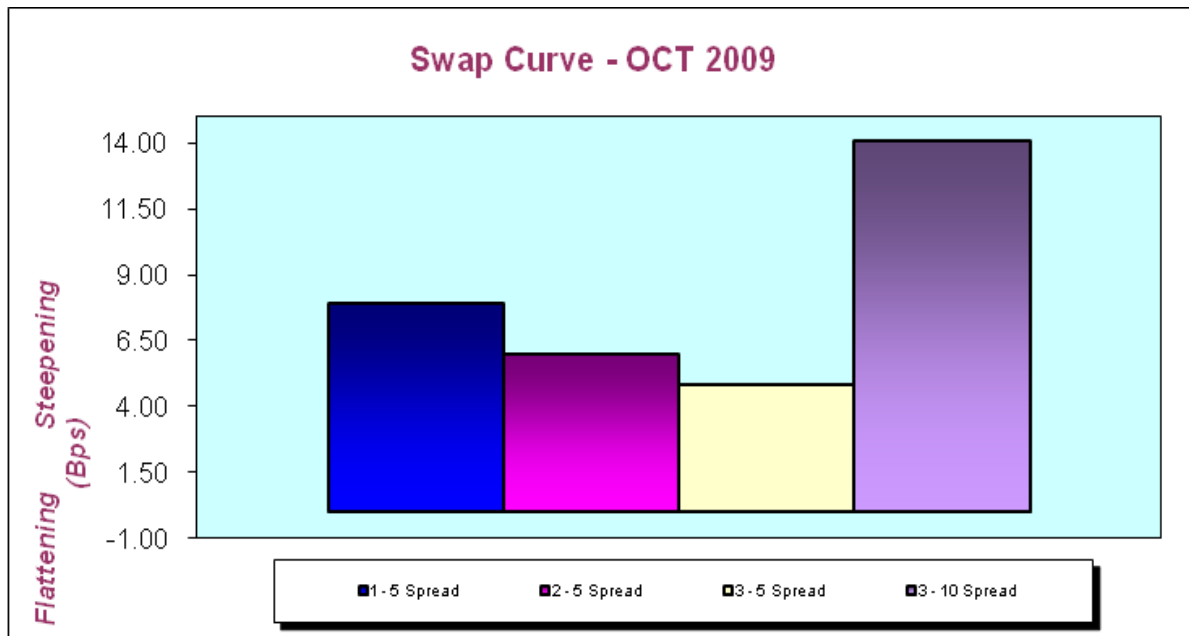
The FN30 CC Spread is the difference between the FN30 Note Rate and the FN30 Current Coupon, in basis points. The FN30 NR is the average conventional note rate across a subset of Compass's client base normalized for volume. The FN30 CC is the Fannie 30-year Mortgage Backed Security yield at par 30 days out. The difference between these numbers gives an indication as to how much margin is priced into the secondary market. The primary factors are interest rates and warehouse line constraints. Lenders may also be slower to improve rates during a rally, and quick to drop their pricing during a sell-off. During September, there was a 22bp peak to trough differential. Shown in the chart above, there is a noticeable negative correlation between rates and spreads. At each point where rates dropped, there was a widening of margin. The tightest the spread got was 71bps; the widest was 93bps; the average was 82bps. —David Bennett

Monthly Spreads



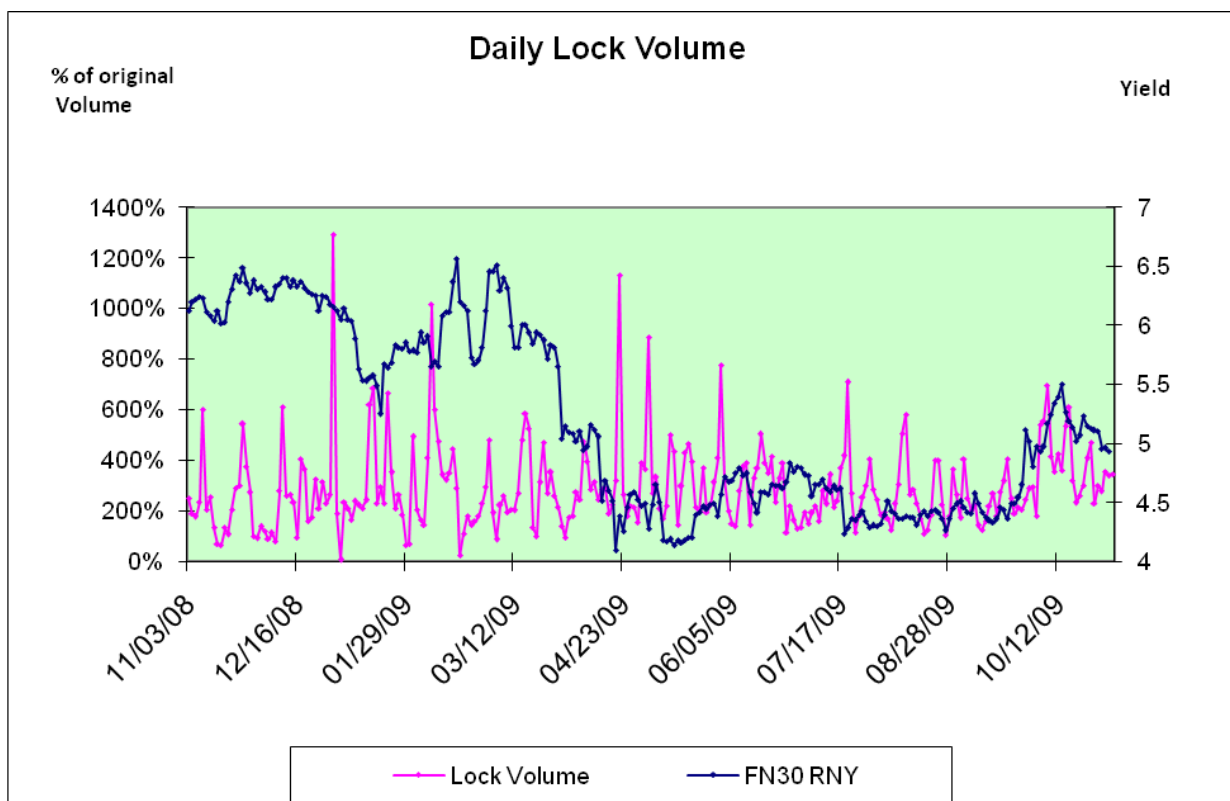
FN30 Current Coupon spreads bounced up during the month before settling back to almost unchanged from the end of last month. Treasuries 2-10's spread was up to 249bps from 236bps the previous month end. –Glen Brown

Swap Curve Analysis



Yields were marginally lower across the short tenors in October, with the 1 year falling slightly more than the 2 year. The 3 year and 5 year yields were nearly unchanged from September to October, and the 10 year swap yield increased by 11 bps, leading to a slightly steeper curve. In October's biggest daily move the 10 year swap yield was up about 15 bps. The 1-10 LIBOR/Swap spread widened about 17 bps to 237 bps. *-Dylan Faerstein*

Production Index



Production in October decreased while rates traded in a wider range (32bp range in October versus 21bp in September), with the average yield decreasing month over month by 8 bps. Average volume for the month was 327% of our base volume (vs. 398% in September) ranging from a low of 169% to a high of 821%. The average yield on the FN30 RNY in October was 4.65% (vs. 4.74% in September) ranging from a low of 4.49% to a high of 4.81%. **-Brandon Case**