Compass Analytics | 4040 Civic Center Drive, Suite 450 |San Rafael, CA 94903 |415-462-7500 | www.compass-analytics.com

# The Month in Review

## April 2010

### What's New?

Make sure to take a look at our new graphical analysis. **The MSR Rich/Cheap and Mandatory Best Efforts Spread Analysis** is a new monthly feature in the "Margin Tracker" section. The MSR Rich/Cheap gives the internal rate of return for retaining servicing and provides a general measure of how aggressive aggregators are in their servicing bid. The Mandatory/BE spread tracks the difference of a representative seller's basis point pick-up using mandatory delivery instead of best efforts.

**To all of our Customers for whom we perform trade execution:** Over the next few weeks we will begin to scan client trade confirms after receipt from the broker/dealer and confirmation of terms. These scanned confirms will be copied to secure client FTP sites so they can be accessed by clients at any time. Stay tuned for more information from your Account Manager on how to have direct access to your checked-out confirmations.

Rob Kessel will be teaching a series of classes in the upcoming months for Fannie Mae's Housing Finance Institute (HFI). His **HFI Secondary Marketing Classes** for 2010 are as follows:

- July 13-14: Boston, MA
- October 5-6: Chicago, IL

If you would like more information about these sessions please send an email to rkessel@compass-analytics.com.

Compass will shortly release a greatly expanded, reorganized and indexed web **help file** on our web site. Account managers will provide access information.

### New in CompassPoint™!

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

- Rate Sheet Tools - Originator Profitability Surveillance
- Commitment Pre-Assign MTM/Best Execution
- Company Cash Flow Scale and Time-Based Adjusters
- Expanded Best Execution Detail Fields
- Enhancements to File Import

- Additional Home Equity/Reverse Mortgage Model Variables
- Crystal Report Layout Configuration Item

CompassPointTM 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.

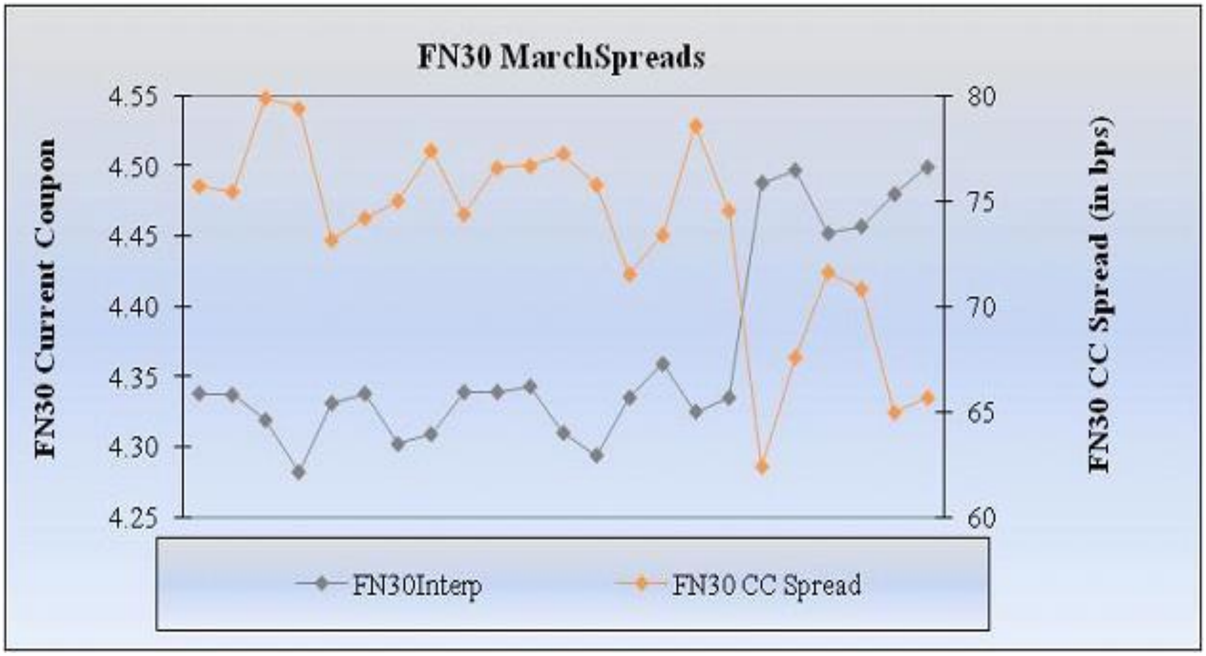
## Market Update

With several economic indicators showing improvement, and with the Fed buying programs winding down, the month of March saw a sharp rise in interest rates. The 10-yr treasury yield climbed from around 3.60% at the beginning of the month to a test of the 4.00% yield following the release of the March employment report. While the March non-farm payroll gains came in below consensus expectations, there was enough strength in the report to continue the sell-off into the following week. The markets were quick to note that while the overall job gains were short of expectations, the gains in private sector jobs outpaced estimates and the boost to the numbers from the hiring of temporary census workers was not as significant as was forecast.

The treasury auctions in the first full week of April took advantage of the run up in rates and overall demand was strong. The 10-yr auction, among others, saw high bid-to-cover ratios and strong demand from indirect bidders. The strong auction demand, along with continued concern of the part of the Fed, helped pushes prices higher and brought rates off their highs. The minutes from the previous FOMC meeting helped calm bond investors as the Fed's ongoing worries regarding the labor and housing markets were brought back to light.

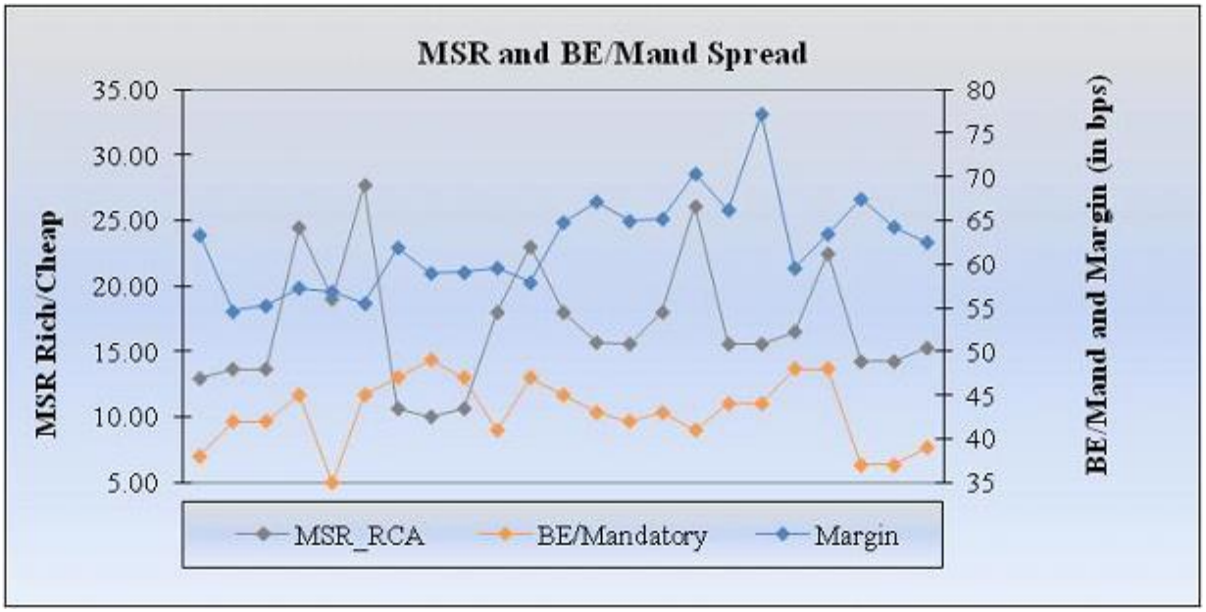
Notwithstanding the solid auctions to start the month or the Fed's ongoing concerns and their affect on the strength of the carry trade, the 10-yr yield continues to hover not far from 4.00%. Another test of that level may not be far off and it can be reasonably assumed that at some point in the not-too-distant future, the level will give way. It's still easier to see rates climb over the coming months than to see them fall for any significant period. ***-Lindsay Hill***

## Margin Tracker



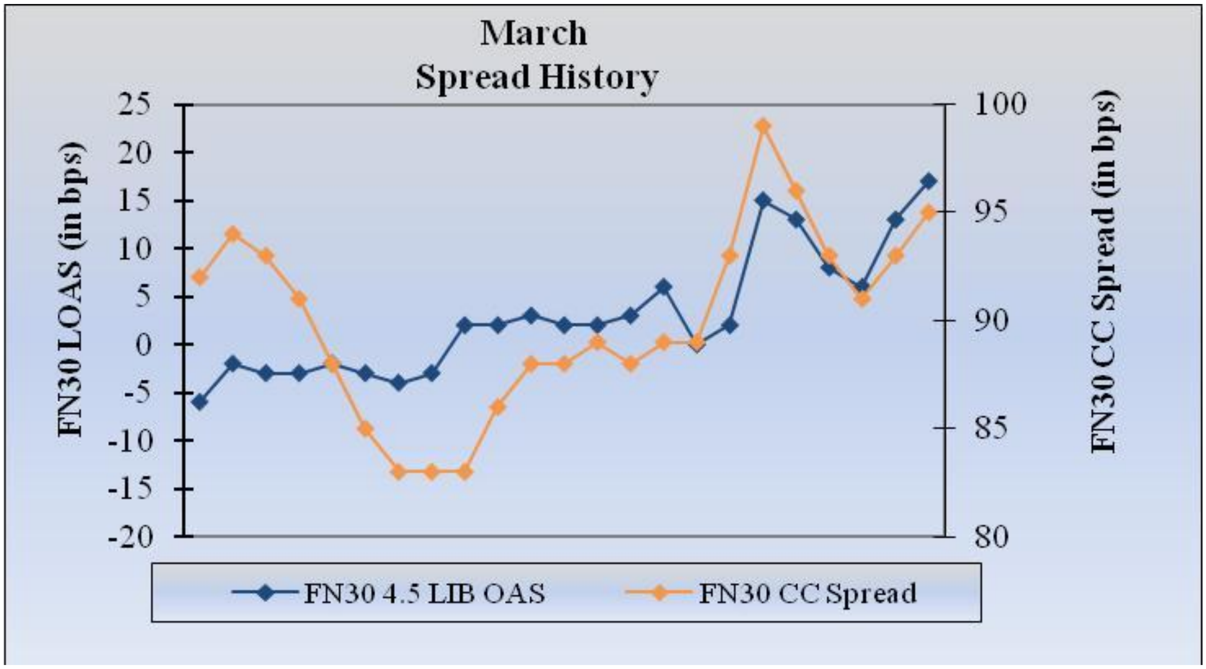

The FN30 CC Spread is the difference between the FN30 Note Rate and the FN30 Current Coupon, in basis points. The FN30 NR is the average conventional note rate across a subset of Compass's client base normalized for volume. The FN30 CC is the Fannie 30-year Mortgage Backed Security yield at par 30 days 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 March, there was an 18bp peak to trough differential. Shown in the chart above, there is a noticeable negative correlation between rates and spreads. As rates chopped around throughout the month, there is a noticeable inverse relationship to the spread. The tightest the spread got was 62bps; the widest was 80bps; the average was 74bps.



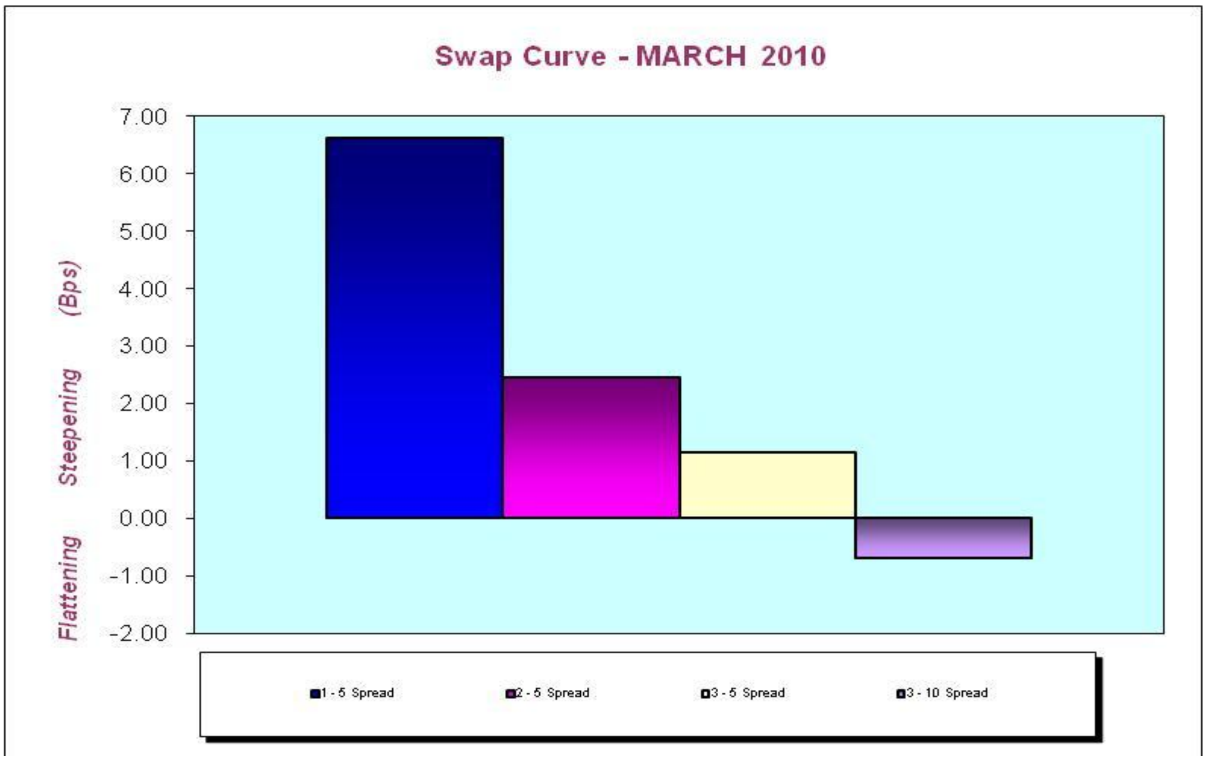

The MSR Rich/Cheap gives the internal rate of return for retaining servicing and provides a general measure of how aggressive aggregators are in their servicing bid. If a client is considering retaining servicing, or is deciding between retaining or selling servicing-released on any given day, this number can serve as a guide. Compass uses best execution across aggregators each day for note rates bracketing the FN30NR. The Mandatory/BE spread tracks the difference of a representative seller's basis point pick-up using mandatory delivery instead of best efforts. Compass uses several investors, for best efforts and mandatory, and compares the best execution of each of the two delivery methods for note rates flanking the FN30NR. The Conventional 30-year average gross profit margin tracks the originator's gross profit margin, i.e. the difference between what the originator pays for the loan (what is posted on a rate sheet) and what the originator could sell the loan for into the secondary market. There was considerable volatility for all three numbers over the course of the month. The MSR Rich/Cheap averaged 17.0% with a peak of 27.8% and a low of 10.0%. The BE/Mandatory Spread averaged 43bps with a peak of 49bps and a trough of 35bps. The 30-year gross profit margin averaged 62bps with a peak of 77bps and a trough of 55bps. ***-David Bennett***

## Monthly Spreads




The Treasury 2-10 spread increased from the previous month at 281bps vs. 279bps at the end of February. ***-Glen Brown***

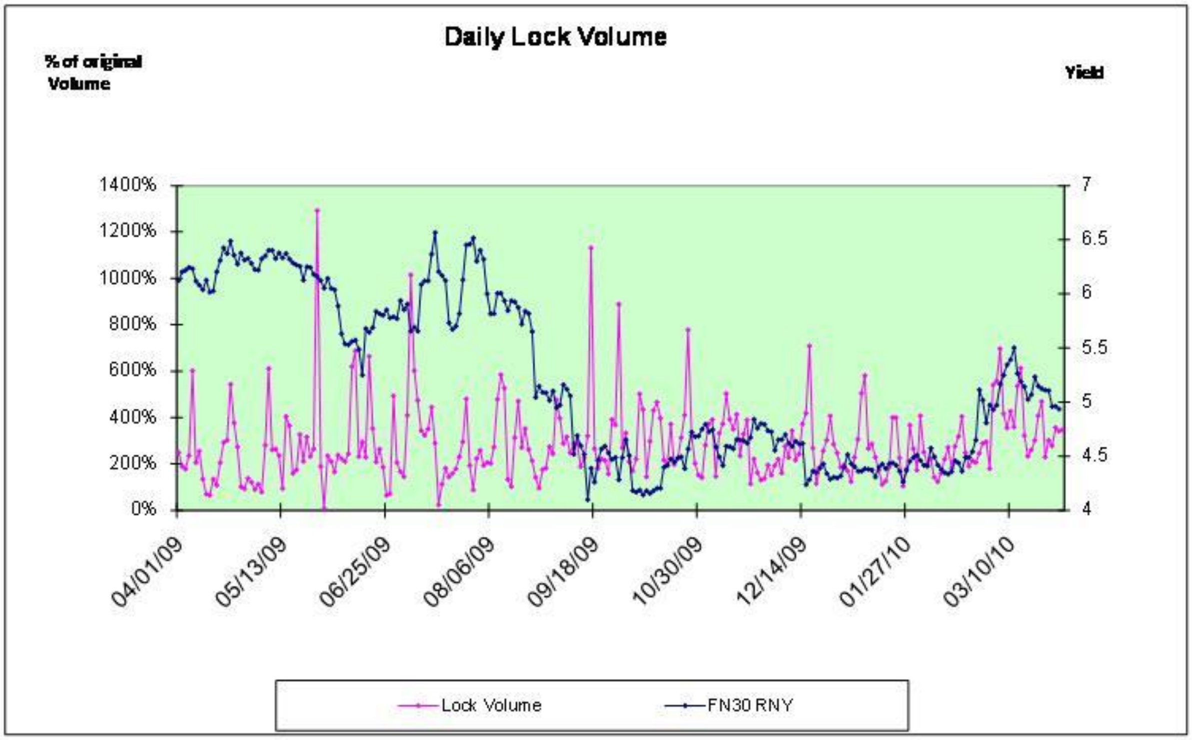
## Swap Curve Analysis




Yields increased across all tenors throughout March. The 1 year LIBOR yield increased 8 bps while the 2, 3, 5 and 10 year swap yields each were up 12.25-14.69 bps in a nearly parallel move. The result was some steepening of the short end, particularly relative to the 1 year. The 5 year swap rate increased the most (14.7 bps), causing the 1-5 LIBOR/Swap spread to widen 7 bps. In March's biggest daily move, the 2 year swap yield was up 6 bps, the 3 year up 8 bps, and both the 5 and 10 year were up 9.5 bps on March 24th, following the weakest 5-yr Note auction in six months. ***-Dylan Faerstein***

## Production Index




Production in March decreased while rates traded in a wider range (19 bp range in March versus 16 bp in February), with the average yield decreasing month over month by 1 bps. Average volume for the month was 174% of our base volume (vs. 251% in February) ranging from a low of 73% to a high of 330%. The average yield on the FN30 RNY in March was 4.71% (vs. 4.72% in February) ranging from a low of 4.64% to a high of 4.84%. ***-Brandon Case***