

## The Month in Review

March 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
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If you would like more information about these sessions please send an email to [rkessel@compass-analytics.com](mailto: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 CompassPoint™, including:

- BETA Rate Sheet Tool (Margins, Rounding, Spiffs) and Definitions
- Originator Profit Margin Structure, UI and Hedge Cost Checks
- Expanded Option Statistics (Generalized Scenarios including Theta, Vega)
- SMTP Email Option
- New Pipeline Adjustor - Added Numeric Column (e.g. Loan Amount) to Dynamic Adjustors w/Interpolation Option

- New Explicit GNMA Export Mapper
- On-Line Help File Integration
- Enhancements to Originator Company Cash Flows/Scenarios
- Enhancements to Interactive Position and Daily Recon Tool Capabilities
- Continued expansion of AFT/LPS Credit Model Integration to MSR Task
- Expanded TFO Pricing

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](mailto:rkessel@compass-analytics.com).

### Market Update

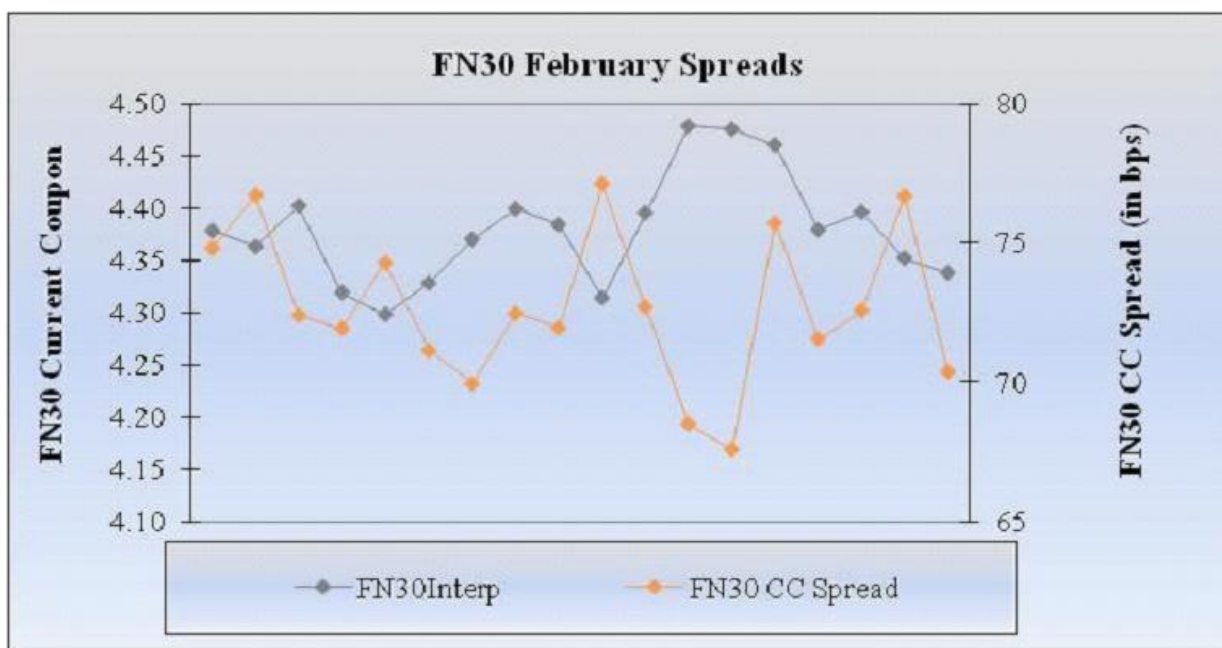
February's bond markets had their share of ups and downs but, ultimately, not much ground was either gained or lost. The early part of the month saw rates creep up as several economic reports, including the NY Empire Index, the Philly Fed Index, and the Industrial Production and Capacity Utilization report showed additional improvement from the prior month. The Fed's decision to increase the discount rate also led to some selling mid-month as bond holders digested the change.

As the month moved into its final week, rates slipped lower once again as news items such as a rather sharp increase in initial unemployment claims and an unexpected drop in pending home sales brought buyers back in. Continuing questions regarding the financial situation in Greece also kept traders on their toes throughout February.

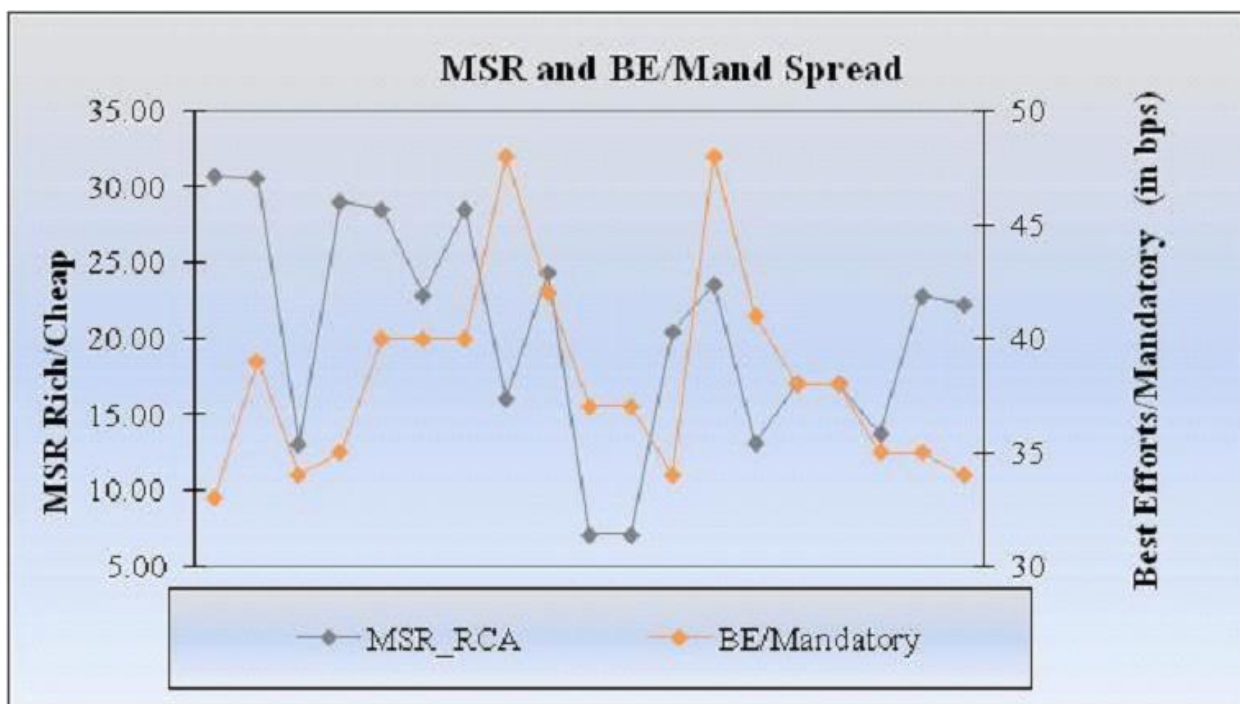
As is always the case, the month was capped-off the following week with the monthly employment report. In the case of February employment, the several heavy storms that crossed the country during the month had many believing that job losses would outpace new employment to the tune of 75,000 jobs or more. Most were also looking for an increase in the headline unemployment rate to 9.8%. Unexpectedly, job losses only totaled 36,000 and the unemployment rate remained at 9.7%. Taking into account revisions to prior months, net non-farm payroll numbers have been mostly flat for the last few months. Once again, rates ticked higher on the news.

Given the up-and-down nature of the economic data over the last month, a volatile bond market is not surprising and, yet, we finished the month near where we started it. With rates strengthening their recent range, more volatility within the range is certainly possible. *-Lindsay Hill*

## Margin Tracker

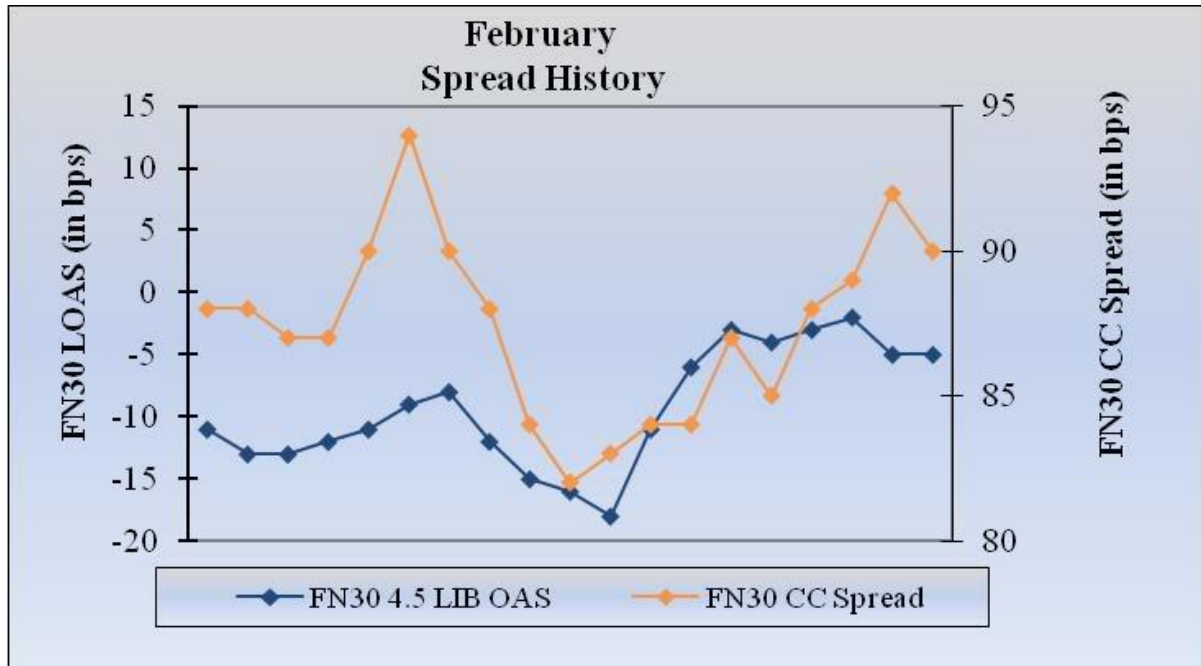


The FN30 CC Spread is the difference between the FN30 Note Rate and the FN30 Current Coupon, in basis points. The FN30 NR is the average conventional note rate across a subset of Compass's client base normalized for volume. The FN30 CC is the Fannie 30-year Mortgage Backed Security yield at par 30 days 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 February, there was a 10bp 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 67bps; the widest was 77bps; the average was 73bps.



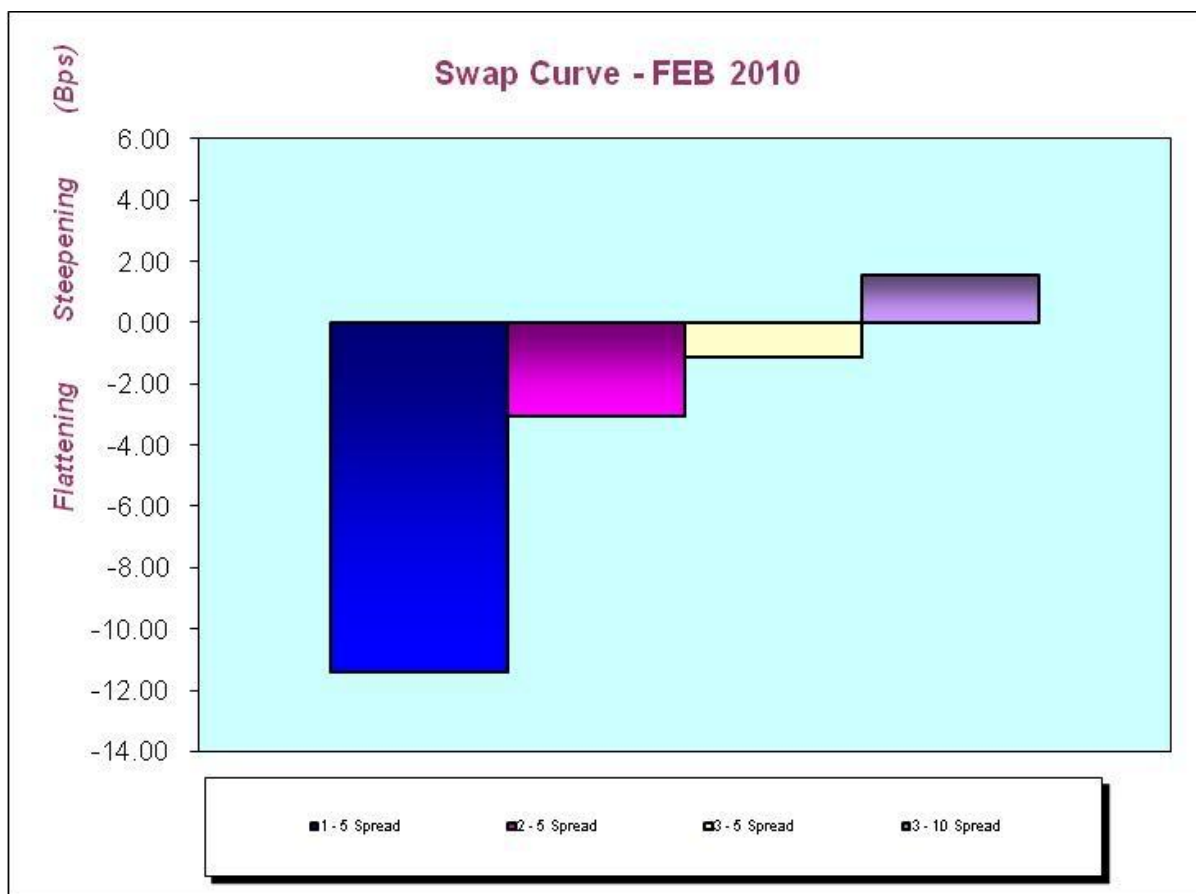
The MSR Rich/Cheap gives the internal rate of return for retaining servicing and provides a general measure of how aggressive aggregators are in their servicing bid. If a client is considering retaining servicing, or is deciding between retaining or selling servicing-released on any given day, this number 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. There was considerable volatility for both numbers over the course of the month. The MSR Rich/Cheap averaged 20.4% with a peak of 30.7% and a low of 7.1%. The Mandatory/BE Spread averaged 38bps with a peak of 48bps and a trough of 33bps. *-David Bennett*

## Monthly Spreads



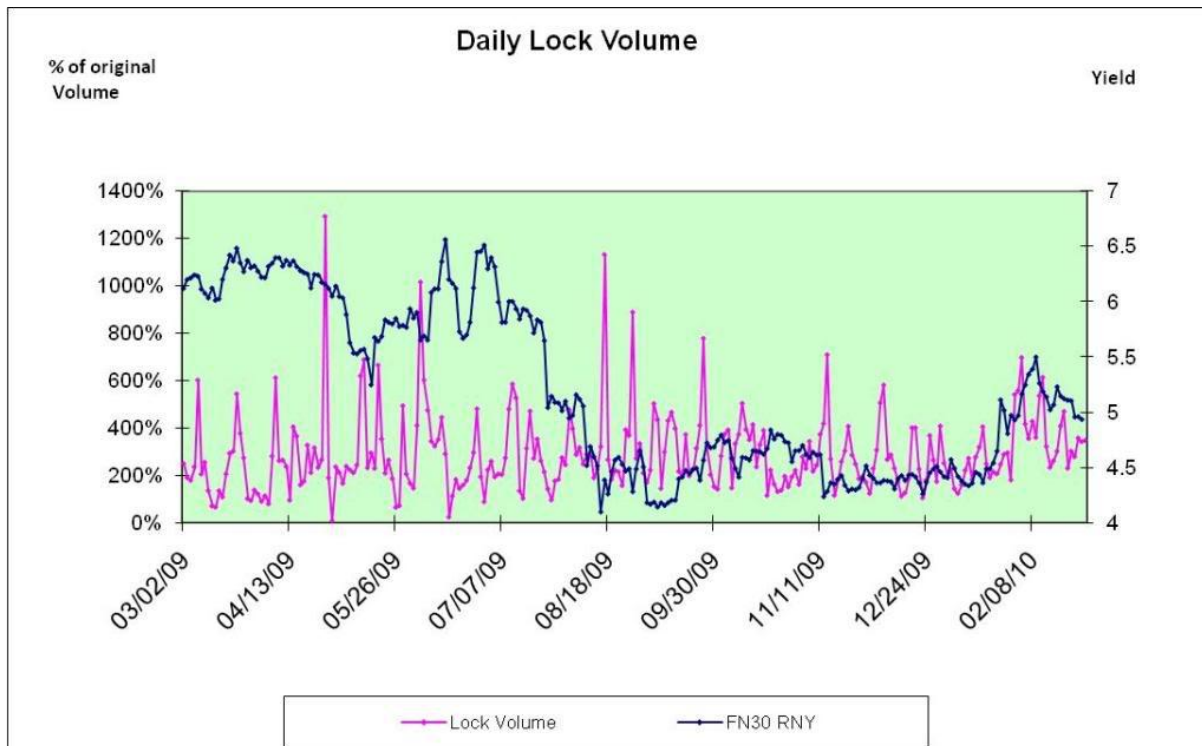
The Treasury 2-10 spread increased slightly from the previous month at 279bps vs. 277bps at the end of January. -Glen Brown

## Swap Curve Analysis



Yields decreased across all tenors throughout February, led by the long end of the curve. The 1 year LIBOR yield dropped less than a basis point while the 2, 3, 5 and 10 year swap yields each fell by 9-12bps in February. The result was a flattening of the short end of the curve and a parallel drop in the long tenors. The 5 year swap rate decreased the most, causing the 1-5 LIBOR/Swap spread to tighten 12bps. In February's biggest daily move, the 3 year swap yield was down 7bps, the 5 year down 9bps and the 10 year down 11bps, following February's poor Consumer Confidence report and flight out of equities that followed. *-Dylan Faerstein*

## Production Index



Production in February increased while rates traded in a narrower range (16bp range in February versus 24bp in January), with the average yield decreased month over month by 6 bps. Average volume for the month was 251% of our base volume (vs. 241% in January) ranging from a low of 117% to a high of 421%. The average yield on the FN30 RNY in February was 4.72% (vs. 4.68% in January) ranging from a low of 4.66% to a high of 4.82%. **-Brandon Case**