

The Month in Review

May 2010

Don't Miss!

Compass Analytics LLC and LoanSifter, Inc, a leading provider of web-based product eligibility and pricing tools, **announced today the successful integration of LoanSifter's namesake platform with Compass Analytics' CompassPoint™**. For more details, check out the press release from Compass sent earlier today.

What's New?

Compass Analytics will be hosting a May webinar training session on Hedging Service Release Premiums. The training session, "**Refresher on Hedging SRPs: Pipeline SRP Risk, How to Measure and Hedge It**", will be given by Rob Kessel on **Thursday, May 20th at 10:00am PST**. 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. There is **very limited availability** for this webinar, please RSVP to lpoule@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.

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: Dallas, TX

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

Tune in next month when we begin to feature a series of MSR articles from Kent Westerbeck of Westerbeck Risk Management (WRM). Kent Westerbeck formed WRM in 2007 following a career at LaSalle bank where he managed the interest rate risk of their MSR portfolio and their overall balance sheet. Mr. Westerbeck has been intimately involved in the proper measurement of risk as well as its management. His company, WRM provides risk management advisory services for MSR portfolios and a financial institutions' overall balance sheet. Over the next few months we will feature these MSR articles in our Topic on the Month section. Upcoming article topics include "MSRs are a Good Investment" and "Why Hedge MSRs", be sure to look for Kent Westerbeck's articles in our June newsletter.

Compass is Moving!

Compass Analytics is excited to announce an office move to San Francisco! The Compass office is currently located in San Rafael, CA, about 15 miles north of the city. On **July 10, 2010** Compass will move into a larger space in the Financial District of San Francisco, California. This centrally located space is near both Bay Area airports, public transportation, many hotels and restaurants, and will allow Compass to host more on-site visits and training for our customers.

New in CompassPoint™!

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

- Additional Rate Sheet Price Option
- Expansion of Day-1 Tracking of Margin Type
- XML File Import Option
- Added MSR/SRP Duration/Convexity to Interactive Position Tool
- MTT Enhancements - Locking Down Pre-assignment Variables
- Improved Loan Trace Tree View to Organize Trace Output
- AFT/LPS Prepay/Credit Model Enhancements
- Improved Delay Calculations in Stochastic Whole Loan Calculations
- Improved Treasury Future and Treasury Future Option Settlement calculations
- Additional IR Swap Settlement, Start Period and Holiday Treatment
- Miscellaneous Help Topics

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

And then, there's Europe.

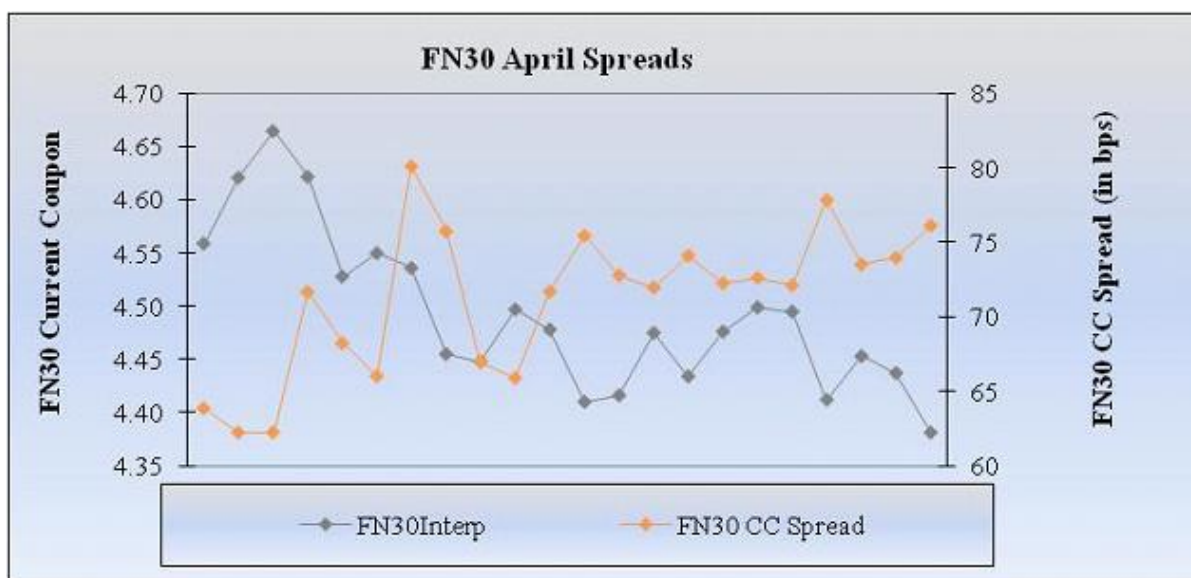
Just as the US markets were finding more glimmers of hope in the domestic economy, the poorer euro-zone members, especially Greece, reared their ugly heads once again. Equities took it solidly on the chin worldwide as debt fears and bailout discussions drove a sharp flight-to-quality trade. The 10-yr treasury ended the first week of May with a drop in yield of 25 basis points and Fannie Mae 30-yr 4.50% coupons gained 25/32 in price on the week.

The euro-zone debt concerns easily overshadowed the monthly employment report. A strong showing for April job growth - 290k new jobs vs. a consensus estimate of 180k - did little to appease equity

investors, especially with the unexpected increase to 9.9% in the headline unemployment rate. As the employment data were being released, many analysts and pundits were still busy discussing what happened the previous day in equity markets where a period of about 15 minutes saw the Dow drop 700 points, only to gain most of that back nearly as quickly. Nothing quite piques the average investor like seemingly unexplainable tumbles in the main indices.

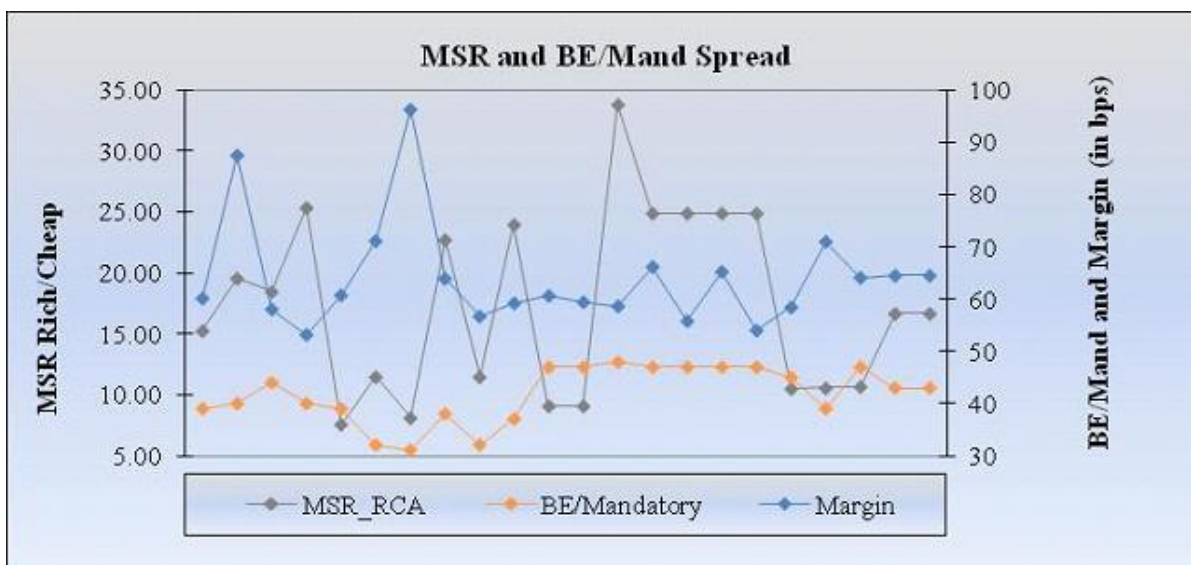
Notwithstanding the fat-finger trade analysis, the euro-zone issues are real and may provide an additional, significant drag on global growth. The EU moved quickly to shore-up the latest sovereign default crisis with a \$955b bailout package. While equities rallied initially on the news, there is still much to be played-out. The EU lacks a central bank with the authority to impose monetary policy across members and without this, it will become increasingly difficult to deal with the issues of a disparate union. Eventually, the stronger nations, led by Germany, may just choose to take their currency and go home. *-Lindsay Hill*

Margin Tracker



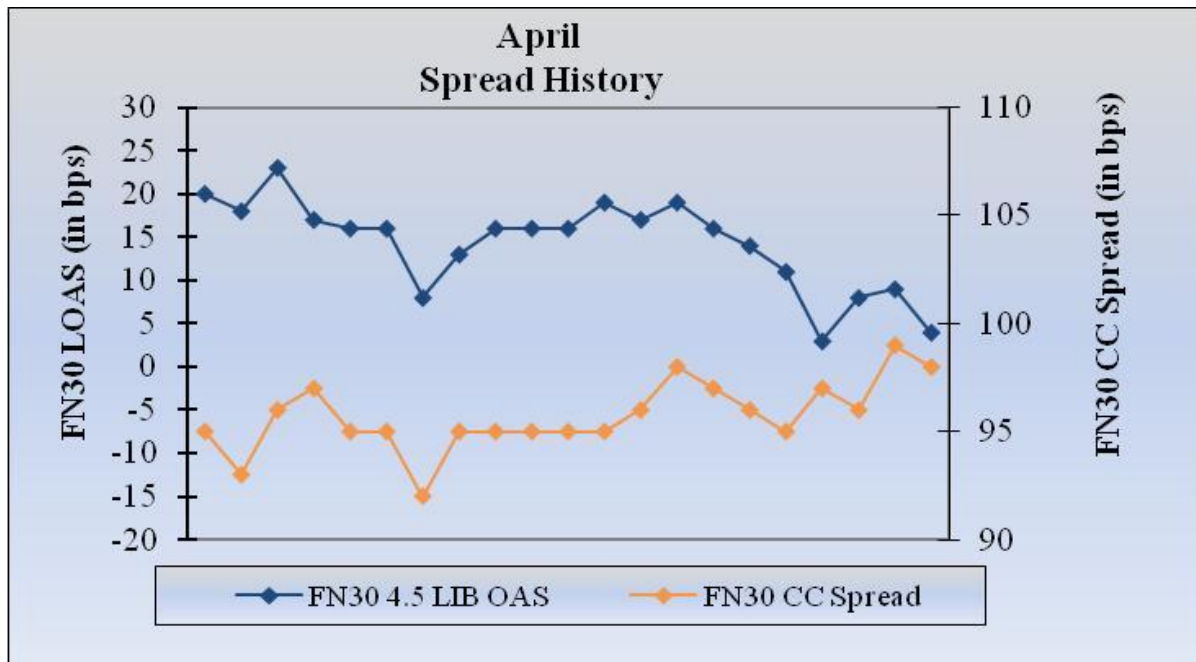
The FN30 CC Spread is the difference between the FN30 Note Rate and the FN30 Current Coupon, in basis points. The FN30 NR is the average conventional note rate across a subset of Compass's client base normalized for volume. The FN30 CC is the Fannie 30-year Mortgage Backed Security yield at par 30 days 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 April, 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 71bps. *-David Bennett*

MSR Rich/Cheap and Mandatory/Best Efforts Spread



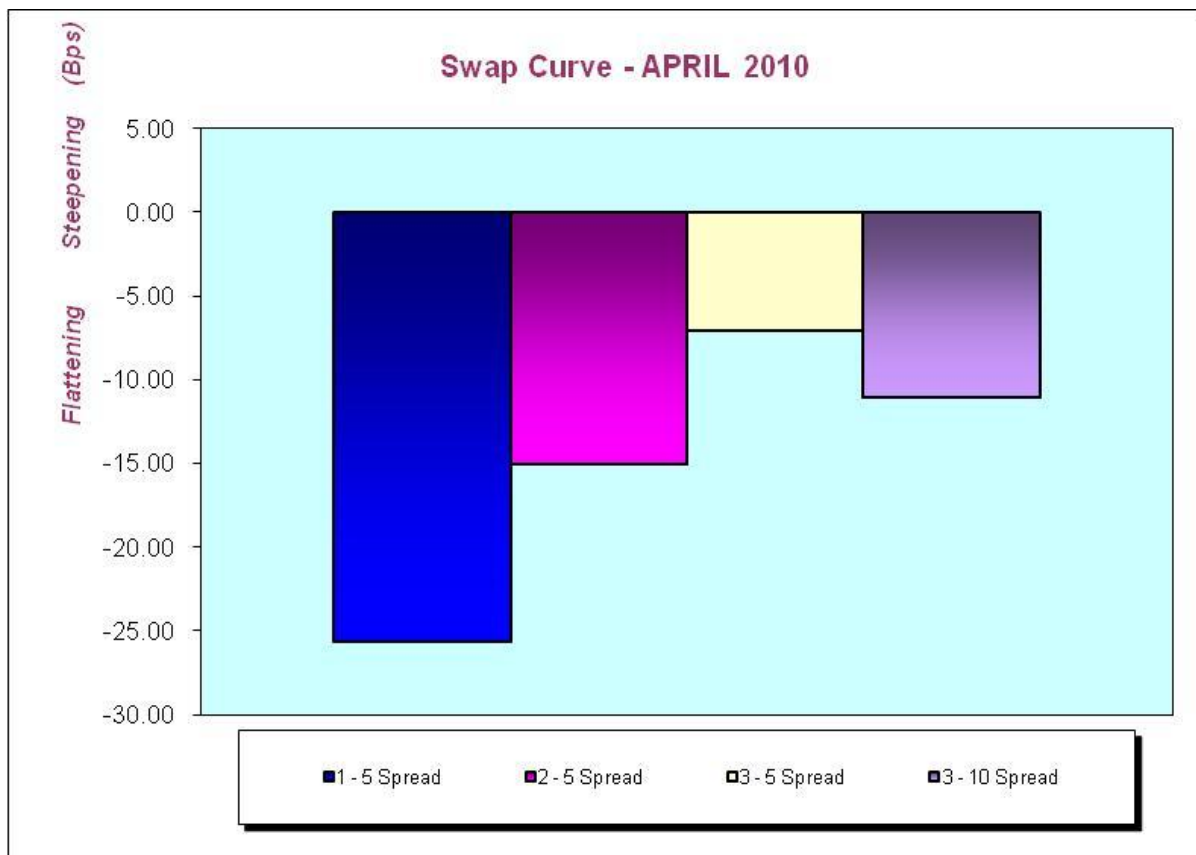
The MSR Rich/Cheap gives the internal rate of return for retaining servicing and provides a general measure of how aggressive aggregators are in their servicing bid. If a client is considering retaining servicing, or is deciding between retaining or selling servicing-released on any given day, this number 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 17.3% with a peak of 33.8% and a low of 7.6%. The BE/Mandatory Spread averaged 42bps with a peak of 48bps and a trough of 31bps. The 30-year gross profit margin averaged 64bps with a peak of 96bps and a trough of 53bps. *-David Bennett*

Monthly Spreads



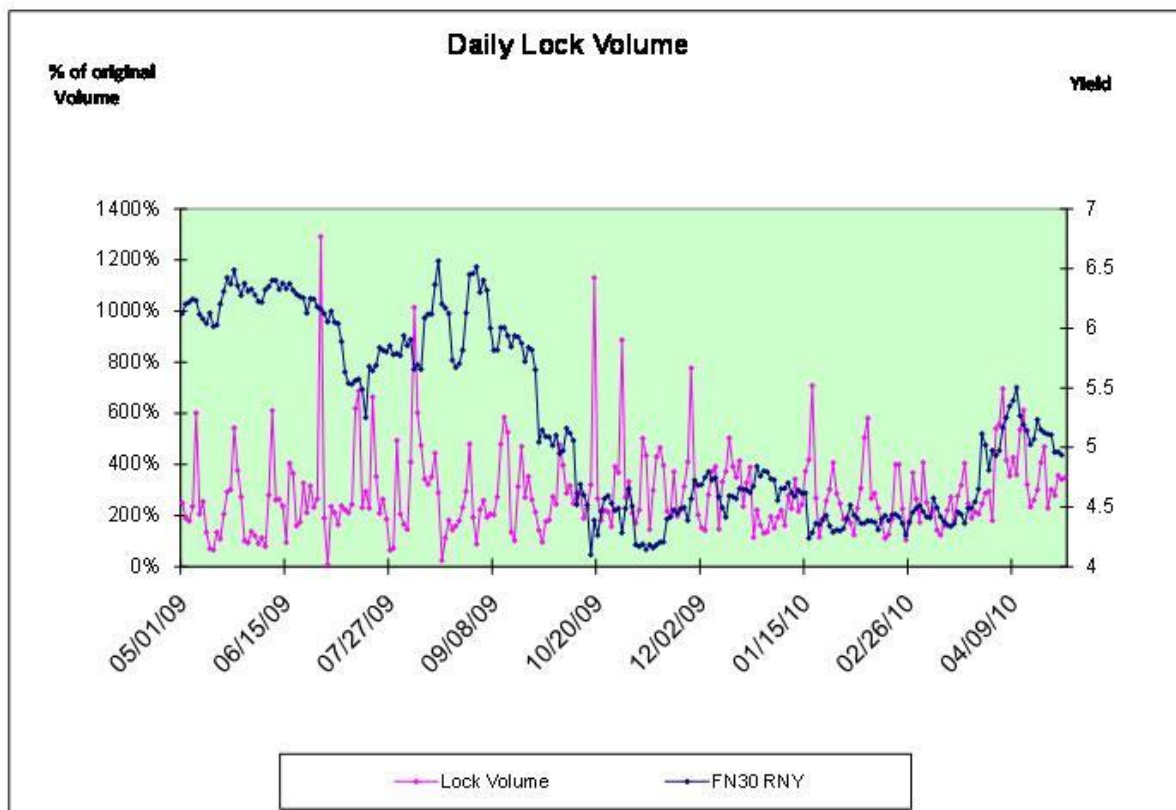
The Treasury 2-10 spread tightened from the previous month at 269bps vs. 281bps at the end of March.
 -Glen Brown

Swap Curve Analysis



The 1 year LIBOR yield increased 10 bps during April and the 2 year swap yield closed the month unchanged. The 3 year yield decreased 8 bps, followed by the 5 year (down 15 bps) and the 10 year (down 20 bps). The result was flattening across the entire curve, particularly relative to the 1 year. The drop in the 10 year rate caused the 1-10 LIBOR/Swap spread to tighten 30 bps. In April's biggest daily move, the 3 year yield was down 10 bps and both the 5 and 10 year yields were down 12 bps on the 27th, following S&P's ratings cuts for Greece and Portugal. *-Dylan Faerstein*

Production Index



Production in April decreased while rates traded in a wider range (23 bp range in April versus 19 bp in March), with the average yield increasing month over month by 13 bps. Average volume for the month was 107% of our base volume (vs. 174% in March) ranging from a low of 44% to a high of 189%. The average yield on the FN30 RNY in April was 4.85% (vs. 4.72% in March) ranging from a low of 4.76% to a high of 5.00%. **-Brandon Case**