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This Brochure provides information about the qualifications and business practices of Compass Analytics, LLC. If you have any questions about the contents of this Brochure, please contact us at (415) 462-7500. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Compass Analytics, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

SUMMARY OF MATERIAL CHANGES

Since our last ADV-II update on December 2, 2009, Compass has had the following material changes to its policies, practices and operations:

- Compass moved its primary data center from its on-site hosting facility at 4040 Civic Center Drive, San Rafael, CA to a third-party hosting facility in Sacramento, CA. The new third party hosting center provides superior power, cooling and internet redundancy with enhanced security features.
- Compass moved its primary office space from 4040 Civic Center Drive, San Rafael, CA to 580 California St., Suite 1725, San Francisco, CA 94104.
- Compass commenced scanning all trade confirmations and in most cases can now make scanned, verified confirmations available to clients upon request.
- Compass now recommends SRP hedging to its clients who are selling loans on a servicing released basis.
- Compass released new software tools to generate rate sheet pricing feeds for its clients.

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ADVISORY BUSINESS

The principal owner of Compass Analytics, LLC is Robin Kessel.

Compass Analytics, LLC provides risk management, loans sales (best execution) and general secondary marketing advisory and hedge execution services in concert with licensing Compass's mortgage valuation and risk management analytics to its clients. In the course of such advisory services, Compass may advise clients regarding their best practices, strategic relationships and workflow. Using its analytics, Compass may suggest specific hedge instruments and amounts to offset interest rate and fallout risk for mortgage pipelines and portfolios. Advisory services are tailored to individual clients given their expertise, balance sheet, relationships and current workflow. Compass's primary objectives include helping clients achieve best execution in their loan sales and protecting them against interest rate and fallout risk. In other words, Compass's trading strategies revolve around preserving client profit margins, not generating extra profits strictly through trading. Compass implements a hedge strategy and policy specific to each client. The hedge policy will include communication between the client and Compass, allowable hedge instruments, position exposure limits and any other specific hedge policy elements requested by the client. When Compass executes trades on behalf of clients, the hedge execution is performed under a specific power of attorney. Compass earns no commission or compensation for any trade execution or volume. As of December 31, 2010, Compass' assets under management on a discretionary basis were \$5,736,500,000. As of this same date Compass managed no assets on a non-discretionary basis.

FEES AND COMPENSATION

Compass bills clients on a monthly basis depending on the combination of products they license, services they receive and the size of their mortgage pipeline and/or portfolio. Monthly fees range from as little as \$2,500 per month up to \$40,000 per month. Compass may also bill clients upon their request for: additional numbers of software licenses, hosted-related fees such as disaster recovery services, source code escrow fees or increased processing power.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Compass does not accept performance-based fees.

TYPES OF CLIENTS

Compass offers its advisory services to mortgage originators and servicers, including mortgage banks, community and commercial banks, credit unions, mortgage insurers, government agencies, FHLB's and REITs. Although Compass does not have a minimum origination loan volume or portfolio balance requirement, for economic reasons, clients typically originate at least \$10 million of principal balance monthly or have a servicing or whole loan portfolio of at least \$100 million of unpaid principal balance ("UPB"). Although Compass does not have a minimum net worth requirement for clients requesting hedge execution services, other required counterparties such as broker/dealers or investors typically require a minimum of \$2 million of net worth in order for the client to secure forward credit/trading lines for pipeline hedging. Clients requesting Mortgage Servicing Rights ("MSR") hedge advisory and/or execution services may be required by counterparties to have larger net worth commensurate with portfolio UPB. As noted under Fees and Compensation, Compass does have minimum monthly billing fees.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Pipeline Hedge Advisory:

For its pipeline hedge advisory business, Compass employs best execution, duration and expected closing analysis to suggest specific loan sale executions, hedge instruments and amounts. Best execution processes use client-supplied investor settings and price schedules alongside market data to derive highest loan price available given the client's investors. This analysis also identifies best execution investor, instrument and delivery method which are used in determination of hedges. Client pipelines include loan lock commitments (unclosed loans). Probability models are used to project expected loan closing percentages. To that end, best execution loan prices are evaluated against opening loan prices to determine market price movement – a key driver in projected expected closing percentages. The client's historical data is used to calibrate and back-test expected closing assumptions/functions.

Loans are primarily delivered into forward mortgage backed securities ("TBAs") which, depending on the product and coupon, have different sensitivities to interest rate movement (duration and convexity). Compass employs interest rate and prepayment models to derive option adjusted spreads given current TBA prices (discovered from market data sources such as Bloomberg, Tradeweb, Reuters and market transactions). A weekly duration/convexity calibration process is employed to insure Compass TBA duration and convexity profiles do not materially deviate from a consensus of broker/dealers.

The position's long exposure is determined by summing the product of a loan's UPB, its expected closing percentage and its duration relative to the duration of a single benchmark hedge instrument.

The position's short exposure is determined by summing the product of a hedges residual trade balance, its duration sign, its option delta and its duration relative to the duration of a single benchmark hedge instrument.

The following are risks of methods employed:

- Incorrect or outdated investor settings may result in incorrect gain/loss projections and expected closing percentages (and therefore hedge amount).
- Incorrect or outdated investor settings may lead to loans being bought at too high of price (from rate sheet) or sold at too low of price, resulting in lower profit or higher loss.
- Incorrect client settings may result in incorrect hedge amount and gain/loss
- Incorrect market data imports may result in incorrect gain/loss projections and expected closing percentages (and therefore hedge amount).
- Incorrect loan data may result in incorrect hedge amount and gain/loss.
- Failure to have a sufficient selection of investors may lead to lower best execution prices.
- Incorrectly specified expected closing functions may lead to inaccurate hedge amount.
- Inaccurate duration derivation may lead to inaccurate hedge amount.
- Hedge instrument duration or price may not perform as expected due to market variables, impacting performance.
- Markets may become excessively volatile leading to material increase in hedge activity, bid/ask expense and in hedge cost – leading to lower profit or higher loss.
- Use of TBAs in current market carries headline risk, e.g. major changes in government agency charter (Fannie Mae, Freddie Mac and Ginnie Mae) or disruptions to servicing markets.
- In times of decreasing mortgage originations, hedge accounting may lead to losses due to the decrease in mortgage pipelines (less future expected earnings).

- Certain delivery methods may lead to cash flow timing mismatches, i.e., gains may be realized with later trading losses due or the converse.
- Investors may change loan price adjustments during the pipeline period, potentially leading to losses.

MSR Hedge Advisory:

For its MSR hedge advisory business, Compass derives MSR durations (total and partial). This analysis identifies MSR value sensitivity to changes in primary (swap and treasury) rates, mortgage spreads and other market related mortgage rate changes. Historical models are used to determine mortgage rate correlations to primary market rates. Third-party prepayment models are used to model prepayment assumptions (e.g. Bloomberg medians, AD-CO and LPS/AFT). Depending on client preferences, MSR values may be derived by static or stochastic (OAS) valuations and clients may elect to hedge some or all risk in the portfolio. Emphasis is placed on modeling clients MSR values in a similar manner to client's third party (fair value) MSR value provider. Hedge balancing frequency and rate movement thresholds are defined individually for each client.

Primary hedge instruments used include TBAs, Interest Rate Swaps, Swap Futures, Eurodollar Futures and Treasury Futures. Key rate duration is derived for hedged MSR portfolio and hedges are selected with sufficient opposite key rate duration to offset total and partial durations (yield curve risk).

The following are risks of methods employed:

- Third party MSR valuations and market MSR values may fluctuate due to technical or liquidity factors that may lead to hedge over/under performance.
- New rules and/or regulations may materially impact the value of Agency and non-Agency portfolios.
- Third party prepayment models may not accurately predict prepayment performance leading to hedge under/over performance.
- Inaccurate client portfolio data could lead to incorrect hedge statistics and amounts.
- If partial (key rate) duration hedging is not employed, non-parallel yield curve shifts could lead to hedge over/under performance.
- If non-mortgage based hedges are employed, mortgage-primary rate spreads may widen or tighten leading to hedge over/under performance.
- If treasury based hedges are employed with interest rate swap or Mortgage related MSR rate models, widening or tightening of treasury-swap or treasury-mortgage spreads may lead to hedge under/over performance.
- Markets may become excessively volatile leading to material increases in hedge activity, bid/ask expense and resulting hedge cost – leading to lower profit or higher loss.
- Depending on portfolio size and client balance sheet, client may experience smaller/larger bid-ask spreads in hedge execution/balancing.
- If non-vanilla hedge instruments are used, e.g., Constant Maturity Mortgage Forward Rate Agreements or Swaptions), market volatility or technical factors may lead to hedge over/under performance.
- Use of TBAs in current market is subject to headline risk, e.g. major changes in government agency charters (Fannie Mae, Freddie Mac and Ginnie Mae) or disruptions to servicing markets.
- Different hedge instruments have different cash and/or margin posting requirements as market rates change.

DISCIPLINARY INFORMATION

Compass has no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

OTHER FINANCIAL INDUSTRY AFFILIATIONS

- Neither Compass nor any of our management persons are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- Neither Compass nor any of our management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities.
- Compass does not have any relationship or arrangement that is material to our advisory business or to our clients that any of our management persons have with any related person listed below:
 - Broker-dealer, municipal securities dealer, or government securities dealer or broker
 - Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company unit investment trust, private investment company or "hedge fund" and offshore fund)
 - Other investment adviser or financial planner
 - Futures commission merchant, commodity pool operator, or commodity trading advisor
 - Bank or thrift institution
 - Accountant or accounting firm
 - Lawyer or law firm
 - Insurance company or agency
 - Pension consultant
 - Real estate broker or dealer
 - Sponsor or syndicator of limited partnerships

Although Compass may recommend other advisors to its clients or advisors that are Compass clients, Compass receives no direct or indirect compensation for such referrals.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Description of COMPASS Code of Ethics

In our efforts to ensure that Compass Analytics, LLC ("CA") develops and maintains a reputation for integrity and high ethical standards, it is essential not only that CA and its employees comply with relevant federal and state securities laws, but also that we maintain high standards of personal and professional conduct. CA's Code of Ethics (the "Code") is designed to help ensure that we conduct our business consistent with these high standards.

CA is a fee-only firm. We believe the best interest of our clients requires the removal of any conflict of interest. CA does not accept commissions. The only compensation we receive is paid directly to us from our clients or vendors where mutual clients access vendor's analytics through our own analytics. We have no exclusive allegiance to any company, product or service and we only execute transactions in accordance with the hedging policies and practices provided in the CA contracts or as requested by our clients in their hedging policy documents or direct verbal or written request.

This Code is based on the principle that the managing partners, account managers and trade operation employees (or persons having similar status or function), i.e., "Access Persons" of CA, have a fiduciary duty to place the interests of the clients ahead of their own interests. This Code applies to all Access

Persons and focuses principally on monitoring and reporting of personal transactions in securities. Access Persons must avoid activities, interests and relationships that might interfere with making decisions in the best interests of the clients. Accordingly, it is CA's policy that Access Persons are not allowed to: i) hold any non-exempt (see Exemptions) equity positions relating to any CA client or ii) personally engage in any financial transactions relating to any CA client or iii) hold any direct positions in instruments with which CA clients mitigate interest rate or credit risk management (collectively "Unacceptable Transactions"). Additionally, Access Persons must obtain pre-approval before they directly or indirectly acquire a beneficial ownership in any security in an initial public offering or limited offering.

Exemptions:

- Transactions and holdings in direct obligations of the Government of the United States
- Money market instruments – bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments
- Shares of money market funds
- Transactions and holdings in shares of other types of mutual funds, unless Compass or a control affiliate acts as the investment adviser or principal underwriter for the fund
- Transactions in units of a unit investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds

Compass will provide a copy of our code of ethics to any client or prospective client upon request.

BROKERAGE PRACTICES

- Compass receives no compensation for soft dollar consideration from any broker/dealers. Compass will evaluate a client's balance sheet and production in consideration with specific broker/dealer minimum net worth requirements and advise clients accordingly to establish relationships with up to 10 broker/dealers. Compass performs hedge execution in competition for each hedge executed where hedges are executed with winning quote.
- Compass executes hedges on behalf of its clients through power of attorney. As such, the counterparty relationship is between the client and the broker/dealer and Compass is unable to aggregate hedge activity.

REVIEW OF ACCOUNTS

- Client positions and gain/loss are evaluated every day, often multiple times in the day. A report with gain/loss data is produced across all clients and is reviewed daily by a Compass partner. In the event of outlying performance, a Compass partner will seek clarification on performance and contact the client management as appropriate.
- Compass provides the following summary reports, in addition to numerous detailed reports, on a daily basis:

Asset Credit Limits: The Asset Credit Limits report is designed to track both the allowed limits and the current volume with each dealer that has authorized an account.

Daily Summary Change: Displays day over day change in loan volume and hedge volume by Position. The G/L impact of these changes as well as the effect of the previous day's market move can be seen on this report.

G/L Summary by Month: This report summarizes the expected overall Gain/Loss ("G/L") by month for the current month and the months going forward. G/L is pull through weighted and

the report is written to easily identify which products are the most profitable. This report also separates the hedging cost from the overall G/L.

Hedge Buckets: This report matches loans into the anticipated delivery month and coupon by running a best execution on each loan given the previous day's market close. It reveals the coverage amounts (either over or under covered) by security coupon and delivery month.

Cross Hedge Buckets: This report groups loans into the anticipated delivery month and coupon based on their crosshedge grouping. It reveals the coverage amounts (either over or under covered) by security coupon and delivery month.

Position Overview: The Position Overview report gives Users a detailed view of their entire mortgage pipeline. The report breaks up the pipeline first into different positions (e.g., ARMS, Fixed, etc.), then by type (e.g., Jumbo, Conventional, Government, etc.) and finally by the term (e.g., 3 year, 5 year, 15 year, 30 year, etc.). The report is designed to get an overall view of the exposure that exists, along with the amount of hedging that is present on all the different segments of the mortgage pipeline.

Shock Summary: An overview of the effect a market (rate) move will have on the active (hedged and unallocated) pipeline in terms of risk exposure and Gain/Loss (G/L). This report is used to audit the lender's P&L exposure due to various possible market-moves.

CLIENT REFERRALS AND OTHER COMPENSATION

- Compass does not receive compensation from any non-clients in exchange for Compass providing advisory services.
- Compass has referral arrangements with several firms whereby Compass will compensate such firms for the referral of any prospects that become Compass clients. Such referral Agreements provide compensation based on the amount of revenue received from such referred prospect and is between 2% and 10% of the year-one revenue receipts from such client.

CUSTODY

Compass does not have custody of any client funds or securities.

INVESTMENT DISCRETION

Compass receives a limited power of attorney from each advisory client for whom Compass executes trades. Compass and client also define the hedge policy governing hedge type, timing and exposure limits.

VOTING CLIENT SECURITIES

Compass does not have or accept authority to vote client securities.

FINANCIAL INFORMATION

Compass does not have discretionary authority or custody of client funds or securities nor does Compass require or solicit prepayment of fees six months or more in advance.

Compass has never been subject of a bankruptcy petition.

