



Hedge Commander Review

www.mortcap.com

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Welcome to mortgage capital management's first newsletter. Though we produce a daily market commentary for clients, we felt it would be useful for our team to review trends, projects, principles of pipeline management, and fundamentals on a monthly basis.

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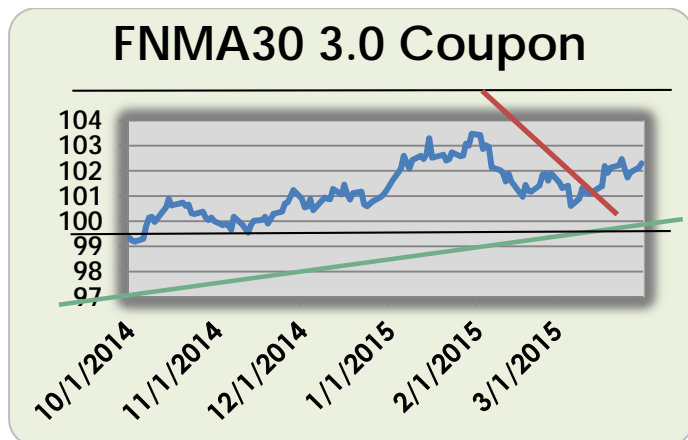
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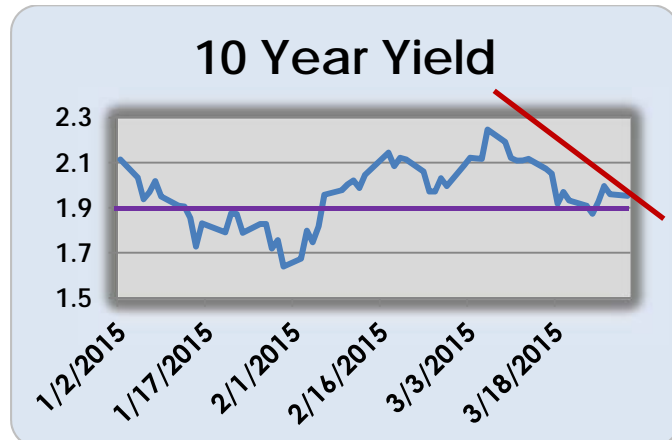
Market Report

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1. Technicals & Fundamentals



Back at the beginning of February the price of the FNMA30 3.0 Coupon hit a high of 103 17/32. Prices had continued to hit higher highs and higher lows. That pattern began to break down very quickly as the month on February wore on. In a 2 week period until February 17th prices fell just over 3 points. The price of the coupon broke through the Fibonacci retracement of 23.6% and looked like it would retreat to the 38.2% level. Prices got a bounce leading into the end of February, but ran out of steam by the end of the month. A lower high was established as prices fell again going into the month of March and a lower low followed. A downward trend line was established and price followed it down until two days before the Fed Statement was to be released and Yellen's comments. Prices inched their way through the trend line and then received the lift they needed to break back up and hit a new higher high.



The 10 year treasury yield has a similar type story but looking at a shorter time period the yield has retraced back to a 61.8% drop in yield since hitting 2.25%. Even with some stronger economic data, the yield has been dropping with a good shove from the Fed's dovish statement.

Fundamentals

- Overall the economic data released in March was weak. There were no signs of inflation. Therefore, it is no wonder that after the Fed's meeting in March the tone was very dovish.
- The data shows that economic growth has moderated somewhat since the last meeting. They stated that inflation has declined further below the committee's longer term objective.
- Mar 3 Non- Farm – 295,000 higher than expected by 65,000 jobs; Prior revised down by 18,000.
- Mar 12 Retail Sales – down .6%. Consensus was to be +.3%.
- Mar 13 Producer Prices – down .5%. Consensus was to be up .3%

- Consumer Sentiment – 91.2. Consensus was to be 96.0
- Mar 16 Industrial Production –.1%. Consensus was +.3%
- Mar 18 FOMC Statement – Dropped “Patience” from statement. Economic growth moderating and inflation below expectations
- Mar 23 Chicago Fed Index – Down .11. Consensus was to be +.15
- Mar 25 Durable Goods – Down 1.4%. Consensus was to be +.7%

As the month progressed after the stronger Non-Farm Payroll number data showed a weakening economy. The Fed’s statement after the FOMC meeting solidified the concerns and prices of bonds and mortgages continued to rally into the latter part of March.

2. Projects & Release Dates

At Mortgage Capital Management, Inc. we pride ourselves on having the gold standard in mortgage pipeline hedging analytics. We strive to constantly improve our product to our clients. In addition to our core analytics we provide many other tools for our clients on our website to assist them in making decisions to sell loans at the best execution price. We currently offer a best execution pooling tool and are in the works on completing loan level best execution analysis to enhance our pooling tool. The enhanced tool will:

- Pool Loans using a Goal Programming Method to maximize pools according to stated criteria

- Best execution based pricing for each loan and pool according to a variety of investors and executions including:
 - Assignment of Trade and Direct Trade executions
 - Mandatory Pricing
 - Agency Retained
 - Agency Released
 - Securitization

The Best Execution Model will include all Loan Level Price Adjustments according to what execution turned out to be best, State Adjusters, and Investor Service Released Premiums. It will allow our Partnership Accounts the ability to upload their individual SRP schedules and Investor Rate Sheets to the website.

In addition to Best Execution Analysis, we are also in the testing stages of our Automated Pricing Module. This new tool allows each client to build a rate sheet interface to their pricing system with rates and prices based on their company’s product based executions programmed into the MCM Pipeline Risk Management System. The module also allows for coupon level hedge adjustments, profitability, and lock terms pricing flexibility.

Other projects that are in the works include:

On line trade Blotters and Trade Tickets to track outstanding trades as well as track paired off trades that have not settled in the event a client has elected to have trades removed upon assignment. These new features will provide:

- Summary of information by dealer, by product and by settlement month.

- Tracking reports showing combined trades to indicate where the client stands in relation to their margining thresholds.
- Trade tickets that allow the trader to enter the trade information in a user-friendly manner
- A trade blotter and entry system that creates an e-mail trade tickets and tracking mechanism that can be sent to targeted individuals.

3. Philosophy

Mortgage Capital Management (“MCM”) is a mortgage banking Pipeline Risk Management and/or Hedge Advisory Firm. MCM provides state-of-the-art analytics and reporting to and for its clients.

MCM is a conservative company. We look at our Clients as manufacturers of widgets. A part of that manufacturing process is interest rate risk. We believe that if the pricing produced at any given moment includes a 150 basis point profit margin, which is the job of the Secondary Marketing Manager to bring 150 basis points to the bottom line when the loans are settled. MCM does not advise clients to speculate about the direction of markets, spreads, or volatility levels. MCM provides clients with many tools, techniques, and strategies that can improve Client profitability, but. . . Taking a bias in the market has never and will never be a part of how MCM provides its services. This applies to both the coaching and risk management analytic aspects of our business.

4. Events Calendar

May 17 - 20, 2015

- MBA's National Secondary Market Conference & Expo

July 8 - 10, 2015

- 43rd Annual Western Secondary Market Conference

October 18 - 21, 2015

- MBA's Annual Convention & Expo

5. Market Report, Spreads & Bid Indications

MBS SECURITIES - BID INDICATIONS - SPREADS SHOWN IN 32NDS							
COUPON:	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
G2 vs. FNMA		22.5	4.5	-12	-15	-73	
G2 MJM 30YR		-34.5	-48.5	-76	-141		
G2 15YR	11	11.5	0.5				
G2 15YR MJM							
FN 20YR		54	25	23			
FN 10YR	30	9	3				
FN CK		-33	-46	-67			
FN 30YR		5	17	38	73		
FN 30YR		3	9	24	66		
FN 30YR		0.5	4	15	28		
FNMA 3-1							
FNMA 5-1		103-18	104-24	105-			
FNMA 7-1		103-15	104-24	105-			
FNMA 10-1	100-21	103-00	104-07				
G2MA 3 -1	102-16	103-19	104-17				
G2MA 5-1	102-14	103-28	104-28				

6. Web Based Training

Mortgage Capital Management is continually improving and creating new systems, reports, and analytics available to our clients on their individually supported and defined website. In order to assure that our clients understand all the tools, reporting and analytics available, we will start conducting training seminars beginning in May. The seminars will be web based with a question and answer period at the end of each session. Seminars will typically last 30 to 45 minutes depending on the subject matter plus a 15 minute question and answers session. Each will begin at 2:00 PST.

Topics will be repeated upon demand at specified dates in the future so if you miss one, chances are it will be offered again!

Web Based Training Schedule

May - 6	Website 101 + Tracking Graphs and Historical Pipeline Data
May - 20	Scenario Analysis
Jun - 10	Market Data and Analysis
Jun - 24	Data Files, error reports, and historical reports
Jun - 8	Diffusion Analysis
Jul -22	Daily Commentary and Analysis
Aug -12	Spread Analysis
Aug -26	Pooling and Stip trades
Sep - 9	Best Execution Analysis
Sep - 23	Fallout reporting and Analysis
Oct - 7	Synthetic Options Execution
Oct - 21	Options Analysis
Nov -4	Float Down Pricing and Management
Nov -18	Builder Commitments Pricing and Management