



"We got a full tank of gas, half a pack of cigarettes, its dark, and we're wearing sunglasses"

Observations from the front seat of the roller coaster.....

Presented by

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BY THE MID 1990'S, WHAT STARTED AS A SMALL BUZZ BY A LITTLE KNOWN COMPANY NAMED SYMBOLICS, TURNED INTO A DEAFENING ROAR THAT BECAME THE DOT.COM FRENZY. IT WAS PROBABLY LESS "GREED" THAN "FEAR". SURE, THERE WERE MILLIONS MADE AND MORE MILLIONS TO BE HAD, BUT WHAT REALLY FUELED THE PUMPS OF THE DOT-COMERS WAS FEAR. FEAR THAT THAT THEY WOULD MISS OUT ON THE BEST OPPORTUNITY OF THEIR GENERATION. FEAR THAT HISTORY COULD BE WRITTEN BY OTHER AUTHORS. FEAR THAT WITHOUT MORE, THERE WOULD CERTAINLY BE LESS. OVER-ESTIMATED, OVER-MARKETED AND OVER-ANTICIPATED, THE DOT-COM BIZ FIRST SHRUGGED, THEN BROKE IN MARCH 2000, UNDER THE WEIGHT OF PILING EXPENSES, LUKEWARM RECEPTION AND COMPETITION THAT THROTTLED THE BOOM-TO-BUST INDUSTRY.

JAUNDICED, AND WITH ECONOMIC PRESSURES BUILDING FOR AN ANSWER FROM UP ABOVE, ALONG CAME THE CAVALRY, AND DOWN CAME THE INTEREST RATES. GREENSPAN, PERHAPS TAKING WORD FROM GINSBERG, HOWLED THROUGH THE CHAMBERS OF CONGRESS AND SWIFTLY, STEADILY, DECREASED INTEREST RATES SESSION AFTER SESSION. ACCORDING TO WIKIPEDIA, "BETWEEN 2000 AND 2003, THE INTEREST RATE ON 30-YEAR FIXED-RATE MORTGAGES FELL 2.5 PERCENTAGE POINTS (FROM 8% TO ALL-TIME HISTORICAL LOW OF ABOUT 5.5%). THE INTEREST RATE ON ONE-YEAR ADJUSTABLE RATE MORTGAGES (1/1 ARMS) FELL 3 PERCENTAGE POINTS (FROM ABOUT 7% TO ABOUT 4%)." RICHARD FISHER, PRESIDENT OF THE DALLAS FEDERAL RESERVE, SAID IN 2006 THAT THE FED'S LOW INTEREST-RATE POLICIES UNINTENTIONALLY PROMPTED SPECULATION IN THE HOUSING MARKET, AND THAT THE SUBSEQUENT "SUBSTANTIAL CORRECTION [IS] INFLECTING REAL COSTS TO MILLIONS OF HOMEOWNERS."

¹ Mark Chapin is the presenter, assembler, and commentator of this offering. Most of the factual data presented in this handout is borrowed from reliable public sources.

TODAY, WEB-SITES, BOOKS AND BLOGS ARE FILLING VOLUMES WITH FINGER-POINTING ESSAYS AND RHETORICALS MANY OF WHICH ARE DIRECTED TOWARDS THE FED'S FORMER HEAD HONCHO. EXCERPTS FOUND IN MANY SUCH FORUMS ARE CLEAR INDICATIONS THAT PRESENT DAY HISTORIANS ARE SETTling ON THEIR SCAPEGOAT. THE FOLLOWING IS JUST ONE EXAMPLE:

"INNOVATION HAS BROUGHT ABOUT A MULTITUDE OF NEW PRODUCTS, SUCH AS SUBPRIME LOANS AND NICHE CREDIT PROGRAMS FOR IMMIGRANTS. SUCH DEVELOPMENTS ARE REPRESENTATIVE OF THE MARKET RESPONSES THAT HAVE DRIVEN THE FINANCIAL SERVICES INDUSTRY THROUGHOUT THE HISTORY OF OUR COUNTRY ... WITH THESE ADVANCES IN TECHNOLOGY, LENDERS HAVE TAKEN ADVANTAGE OF CREDIT-SCORING MODELS AND OTHER TECHNIQUES FOR EFFICIENTLY EXTENDING CREDIT TO A BROADER SPECTRUM OF CONSUMERS. ... WHERE ONCE MORE-MARGINAL APPLICANTS WOULD SIMPLY HAVE BEEN DENIED CREDIT, LENDERS ARE NOW ABLE TO QUITE EFFICIENTLY JUDGE THE RISK POSED BY INDIVIDUAL APPLICANTS AND TO PRICE THAT RISK APPROPRIATELY. THESE IMPROVEMENTS HAVE LED TO RAPID GROWTH IN SUBPRIME MORTGAGE LENDING; INDEED, TODAY SUBPRIME MORTGAGES ACCOUNT FOR ROUGHLY 10 PERCENT OF THE NUMBER OF ALL MORTGAGES OUTSTANDING, UP FROM JUST 1 OR 2 PERCENT IN THE EARLY 1990s." - ALAN GREENSPAN

OF COURSE, AT THE ONSET, IT WAS DIFFICULT TO FORETELL WHAT COULD COME OF SUCH RAMPANT INNOVATIONS. TO THE SEER OF LONG TERM FINANCIAL GROWTH, THE INTEREST RATE BARGAINS AND THE CHANCE TO EXTEND LOAN PRODUCTS TO THE PREVIOUSLY UNTAPPED MASSES WAS A STEROID-RICH CARROT WITH A VERY SHORT STICK. THAT SAID, IT IS NOW WELL KNOWN THAT MIXING SUBPRIME LOANS WITH ROLL-YOUR-OWN ADJUSTABLE RATE MORTGAGES IN A CANTANKEROUS ECONOMY IS DANGEROUS ALCHEMY INDEED. A MULTITUDE OF LENDERS AND BROKERS HAVE HEADED FOR THE HILLS, FORGETTING TO PAY THEIR DEBTS AS THEY SKEDADDLED OUT OF TOWN. PAYING THOSE BILLS, THOUGH, DO NOT EVEN SHOW UP ON THE RADAR SCREEN WHEN MEASURED WITH THE TOLL PAID BY A BEWILDERED AMERICAN PUBLIC, TOO MANY OF WHOM ARE OUT OF HOUSE, OUT OF HOME AND, MOST UNFORTUNATE OF ALL, OUT OF TIME.

SO HERE WE ARE...IT IS FAIR TO SAY THAT THE MORTGAGE INDUSTRY IS AT A JUNCTURE AND THAT THAT IMPACTS ALL FACETS OF THE HOUSING INDUSTRY AS A WHOLE. IT IS FAIR TO SAY THAT LENDING PRACTICES WILL SEE MANY CHANGES IN COMING YEARS. IT IS ALSO FAIR TO SAY THAT NOT ALL OF THE NEWS IS BAD. NOT EVERY PART OF THE COUNTRY IS SUFFERING. THERE ARE SEGMENTS IN EACH OF THE REGIONS WHERE ECONOMIES ARE MORE ROBUST. SEVERAL MARKETS ARE EXHIBITING SIGNS OF RECOVERY AND SEVERAL OTHERS ARE TAKING PRO-ACTIVE MEASURES TO FORGE AHEAD WITH PROGRESS.

THIS DOCUMENT SEEKS TO OBSERVE OUR SITUATION; TO POINT OUT BOTH POSITIVES AND NEGATIVES; BUT MOSTLY TO INFORM AND COLLATE THE RECENT MEDIA DRIVEN FRENZY OF OPINION AND MISINFORMATION. SO READ ON FOR A REGION BY REGION ANALYSIS, AN OVERVIEW ON ACTIVITIES SUCH AS FRAUD, FORECLOSURE AND MARKET SEGMENT HOT TOPICS. REMEMBER, IN RADICALLY CHANGING TIMES IT'S IMPORTANT TO STAY FROSTY AND PAY CLOSE ATTENTION TO YOUR SURROUNDINGS OR RUN THE RISK OF HAVING YOUR LUNCH EATEN FOR YOU.



NATIONAL VIEW

Q207 VERSUS Q307 / OPINIONS FROM NAR

HAVE WE BOTTOMED OUT YET? LET'S LOOK AT A COMPARISON OF ATTITUDES IN A SHORT THREE MONTH PERIOD.

IN Q207 LAWRENCE YUN, NAR SENIOR ECONOMIST INDICATED THAT THE TREND IN PRICING SEEN THUS FAR IN 2007 HAS BEEN "ENCOURAGING". MR. YUN STATED, "ALTHOUGH HOME PRICES ARE RELATIVELY FLAT, MORE METRO AREAS ARE SHOWING PRICE GAINS WITH GENERAL IMPROVEMENTS SINCE BOTTOMING-OUT IN THE FOURTH QUARTER OF 2006". HE WENT ON TO ADD THAT THE DISRUPTIONS SEEN IN THE MORTGAGE INDUSTRY MAY TEMPORARILY HOLD BACK SALES, HOWEVER, THERE IS A MOMENTUM BUILDING THAT SUGGESTS STABILIZATION IN MANY LOCAL MARKETS. IN FACT, Q207 NAR STATS SHOW THAT SIX STATES HAVE POSTED INCREASES IN SALE PACE FROM A YEAR AGO.

NAR STATISTICS SHOW THAT WYOMING WAS THE BEST IN TOTAL SALES PERFORMANCE IN Q207 (BASED ON A COMPARISON OF 2ND QUARTER 2006). IOWA WAS SECOND WITH A 4.1% INCREASE AND THIRD WAS NORTH DAKOTA WITH 2.9% APPRECIATION. THE OTHER THREE GAINERS INCLUDE OKLAHOMA, INDIANA AND NEBRASKA.

OVERALL HOWEVER THE NATIONAL MEDIAN EXISTING HOME PRICE DECLINED 1.5% FROM THE 2ND QUARTER OF 2006. CONDOMINIUMS SOFTENED IN SEVERAL MARKETS. HOWEVER, A FEW CONDO CENTRIC MARKETS APPRECIATED. SALT LAKE CITY WAS AT THE TOP OF THE LIST (25.2% COMPARED TO 2Q 2006). RENO-SPARKS, NV WAS SECOND WITH A 17% RISE AND THE AUSTIN, TX METRO AREA SAW MEDIAN CONDO PRICES RISE 14.9%.

BY END Q307 THE PICTURE CHANGED. AS FUNDING SOURCES TIGHTENED THEIR BELTS TO THE LAST NOTCH IN FLINCH REACTIONS TO THE NEW STAGGERING DEFAULT STATISTICS THE SUBPRIME INDUSTRY LITERALLY STOPPED BREATHING AND GIANTS FELL LIKE DOMINOES HIT WITH A SLEDGE HAMMER.

SINGLE FAMILY EXISTING HOME SALES WERE STABLE IN OCTOBER WHILE THE CONDO SECTOR WAS DOWN, ACCORDING TO THE NATIONAL ASSOCIATION OF REALTORS®. LINGERING EFFECTS OF THE CREDIT CRUNCH WERE A DRAG ON SALES BUT THE MORTGAGE SITUATION HAS IMPROVED SIGNIFICANTLY.

TOTAL EXISTING HOME SALES INCLUDING SINGLE-FAMILY, TOWNHOMES, CONDOMINIUMS AND CO-OPS – EASED BY 1.2 PERCENT TO A SEASONALLY ADJUSTED ANNUAL RATE OF 4.97 MILLION UNITS IN OCTOBER FROM A DOWNWARDLY REVISED LEVEL OF 5.03 MILLION IN SEPTEMBER, AND ARE 20.7 PERCENT BELOW THE 6.27 MILLION-UNIT PACE IN SEPTEMBER 2006.

CLOSING Q307 YUN EXPECTED THE SLUGGISH PERFORMANCE. “AS NOTED LAST MONTH, TEMPORARY MORTGAGE PROBLEMS WERE PEAKING BACK IN AUGUST WHEN MANY OF THE SALES CLOSED IN OCTOBER WERE BEING NEGOTIATED. WE CONTINUE TO SEE THE BIGGEST IMPACT IN HIGH-COST MARKETS THAT RELY ON JUMBO LOANS,” HE SAID. “MORTGAGE AVAILABILITY HAS IMPROVED AS EVIDENCED BY MUCH LOWER MORTGAGE INTEREST RATES AND A SHARP JUMP IN FHA ENDORSEMENTS FOR HOME PURCHASES.

“A TREND AWAY FROM SUBPRIME MORTGAGES TO FHA LOANS, WHICH OFTEN CARRY MUCH LOWER INTEREST RATES, IS A POSITIVE DEVELOPMENT FOR CONSUMERS AND THE HOUSING MARKET GOING FORWARD. STILL, IT WILL TAKE SOME TIME FOR THE CHANGE TO YIELD A MEASURABLY HIGHER CLOSED SALES VOLUME IN THE AFTERMATH OF THE SUBPRIME COLLAPSE. IN THE NEAR TERM, WE EXPECT HOME SALES TO REMAIN FAIRLY STABLE.”

ACCORDING TO FREDDIE MAC, THE NATIONAL AVERAGE COMMITMENT RATE FOR A 30-YEAR, CONVENTIONAL, FIXED-RATE MORTGAGE WAS 6.38 PERCENT IN OCTOBER, UNCHANGED FROM SEPTEMBER; THE RATE WAS 6.36 PERCENT IN OCTOBER 2006. OCTOBER 2007 FREDDIE MAC REPORTED THE 30-YEAR FIXED RATE FELL TO 6.20 PERCENT.

THE NATIONAL MEDIAN EXISTING-HOME PRICE FOR ALL HOUSING TYPES WAS \$207,800 IN OCTOBER, DOWN 5.1 PERCENT FROM OCTOBER 2006 WHEN THE MEDIAN WAS \$218,900, BUT THERE IS A DOWNWARD DISTORTION FROM THE TEMPORARY PROBLEMS WITH JUMBO LOANS THAT SLOWED SALES IN HIGH-PRICE MARKETS, AND THAT DRAGGED DOWN THE NATIONAL MEDIAN.

NAR PRESIDENT RICHARD GAYLORD, A BROKER WITH RE/MAX REAL ESTATE SPECIALISTS IN LONG BEACH, CALIF., EMPHASIZED THAT ALL REAL ESTATE IS LOCAL. "KEEP IN MIND THAT HOME PRICES ARE UP IN 93 OUT OF 150 METRO AREAS, AND THERE IS A LOT OF CONFUSION IN THE MARKET FROM REPORTS ABOUT NATIONAL DATA. BROADLY SPEAKING, HOME PRICES IN MOST AREAS ARE UP MODESTLY OR FAIRLY STABLE," HE SAID. "AREAS WITH POPULATION OR JOB GROWTH ARE SEEING THE STRONGEST HOME PRICE GAINS."

AMONG THE MANY METRO AREAS SHOWING HEALTHY PRICE GAINS ARE CHARLOTTE, N.C.; SAN FRANCISCO; ALBUQUERQUE; AND GREEN BAY, WIS.

TOTAL HOUSING INVENTORY ROSE 1.9 PERCENT AT THE END OF OCTOBER TO 4.45 MILLION EXISTING HOMES AVAILABLE FOR SALE, WHICH REPRESENTS A 10.8-MONTH SUPPLY AT THE CURRENT SALES PACE, UP FROM A DOWNWARDLY REVISED 10.4-MONTH SUPPLY IN SEPTEMBER.

SINGLE-FAMILY HOME SALES WERE UNCHANGED FROM SEPTEMBER AT THE SEASONALLY ADJUSTED ANNUAL RATE OF 4.37 MILLION IN OCTOBER, AND ARE 20.8 PERCENT BELOW 5.52 MILLION-UNIT LEVEL IN OCTOBER 2006. THE MEDIAN EXISTING SINGLE-FAMILY HOME PRICE WAS \$205,700 IN OCTOBER, DOWN 6.3 PERCENT FROM A YEAR AGO.

EXISTING CONDOMINIUM AND CO-OP SALES FELL 9.1 PERCENT TO A SEASONALLY ADJUSTED ANNUAL RATE OF 600,000 UNITS IN OCTOBER FROM 660,000 IN SEPTEMBER, BUT ARE 20.2 PERCENT BELOW THE 752,000-UNIT PACE IN OCTOBER 2006. THE MEDIAN EXISTING CONDO PRICE WAS \$223,500 IN OCTOBER, UP 4.9 PERCENT FROM A YEAR AGO.

REGIONALLY, EXISTING-HOME SALES IN THE NORTHEAST WERE UNCHANGED AT AN ANNUAL PACE OF 900,000 IN OCTOBER, AND ARE 12.6 PERCENT BELOW OCTOBER 2006. THE MEDIAN PRICE IN THE NORTHEAST WAS \$258,700, UP 1.3 PERCENT FROM A YEAR AGO.

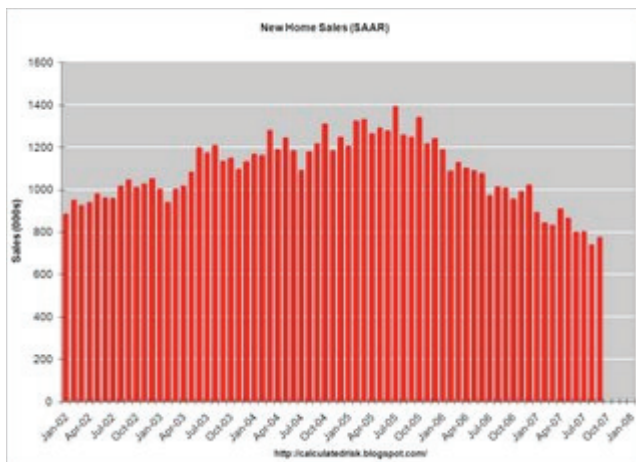
EXISTING-HOME SALES IN THE SOUTH ALSO WERE UNCHANGED IN OCTOBER, AT AN ANNUAL RATE OF 2.03 MILLION, BUT ARE 19.4 PERCENT BELOW A YEAR AGO. THE MEDIAN PRICE IN THE SOUTH WAS \$171,400, DOWN 6.7 PERCENT FROM OCTOBER 2006.

IN THE MIDWEST, EXISTING-HOME SALES SLIPPED 1.7 PERCENT TO AN ANNUAL RATE OF 1.18 MILLION IN OCTOBER, AND ARE 16.9 PERCENT BELOW OCTOBER 2006. THE MEDIAN PRICE IN THE MIDWEST WAS \$164,000, DOWN 1.6 PERCENT FROM A YEAR AGO.

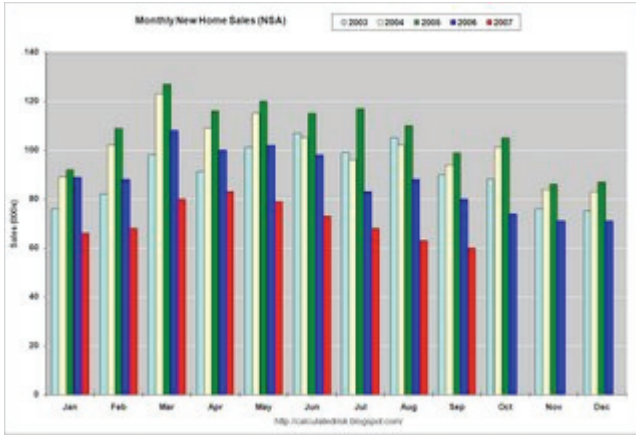
EXISTING-HOME SALES IN THE WEST FELL 4.4 PERCENT IN OCTOBER TO A LEVEL OF 870,000, AND ARE 33.1 PERCENT BELOW A YEAR AGO. THE MEDIAN PRICE IN THE WEST WAS \$318,200, WHICH IS 6.9 PERCENT LOWER THAN OCTOBER 2006.

FROM CALCULATED RISK

ACCORDING TO THE CENSUS BUREAU [REPORT](#), NEW HOME SALES IN SEPTEMBER WERE AT A SEASONALLY ADJUSTED ANNUAL RATE OF 770 THOUSAND. SALES FOR AUGUST WERE REVISED DOWN TO 735 THOUSAND, FROM 795 THOUSAND. NUMBERS FOR JUNE AND JULY WERE ALSO REVISED DOWN.

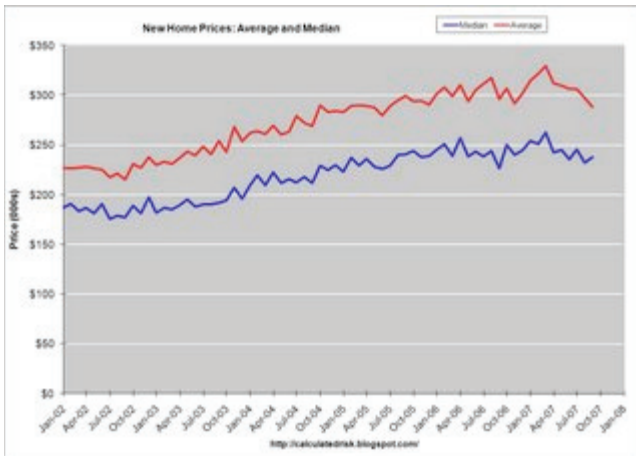


SALES OF NEW ONE-FAMILY HOUSES IN SEPTEMBER 2007 WERE AT A SEASONALLY ADJUSTED ANNUAL RATE OF 770,000 ... THIS IS 4.8 PERCENT ABOVE THE REVISED AUGUST RATE OF 735,000, BUT IS 23.3 PERCENT BELOW THE SEPTEMBER 2006 ESTIMATE OF 1,004,000.



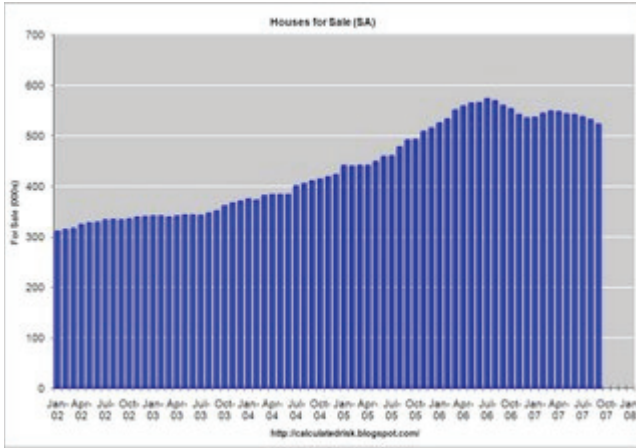
THE NOT SEASONALLY ADJUSTED MONTHLY RATE WAS 60,000 NEW HOMES SOLD. THERE WERE 80,000 NEW HOMES SOLD IN SEPTEMBER 2006.

SEPTEMBER '07 SALES WERE THE LOWEST SEPTEMBER SINCE 1995 (54,000).



THE MEDIAN AND AVERAGE SALES PRICES ARE DECLINING. CAUTION SHOULD BE USED WHEN ANALYZING MONTHLY PRICE CHANGES SINCE PRICES ARE HEAVILY REVISED AND DO NOT INCLUDE BUILDER INCENTIVES.

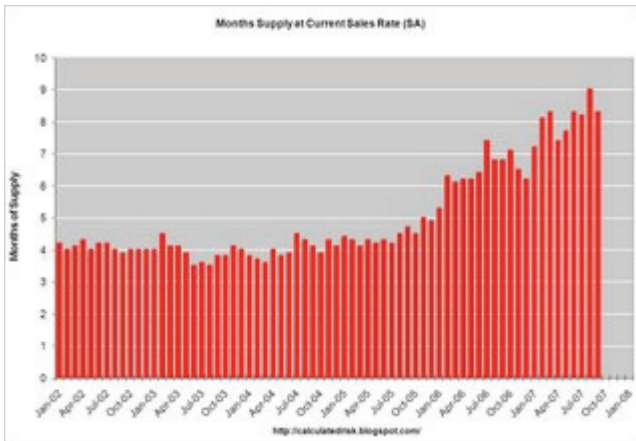
THE MEDIAN SALES PRICE OF NEW HOUSES SOLD IN SEPTEMBER 2007 WAS \$238,000; THE AVERAGE SALES PRICE WAS \$288,000.



THE SEASONALLY ADJUSTED ESTIMATE OF NEW HOUSES FOR SALE AT THE END OF SEPTEMBER WAS 523,000.

THE 523,000 UNITS OF INVENTORY IS SLIGHTLY BELOW THE LEVELS OF THE LAST YEAR.

INVENTORY NUMBERS FROM THE CENSUS BUREAU DO NOT INCLUDE CANCELLATIONS - AND CANCELLATIONS ARE ONCE AGAIN AT RECORD LEVELS. ACTUAL NEW HOME INVENTORIES ARE PROBABLY MUCH HIGHER THAN REPORTED - PROBABLY ABOUT 100K HIGHER.



THIS REPRESENTS A SUPPLY OF 8.3 MONTHS AT THE CURRENT SALES RATE.

THIS IS ANOTHER VERY WEAK REPORT FOR NEW HOME SALES. THE STUNNING - BUT NOT SURPRISING - DOWNWARD REVISION TO THE AUGUST SALES NUMBERS WAS EXTREMELY UGLY. THIS IS THE SECOND REPORT AFTER THE START OF THE CREDIT TURMOIL, AND, AS EXPECTED, THE SALES NUMBERS ARE VERY POOR.

FORECLOSURE

TOP 10 WORST HIT ZIP CODES BY FORECLOSURE - SECOND QUARTER, 2007

1. 44105 CLEVELAND, OH 783
2. 30310 ATLANTA, GA 709
3. 80219 DENVER, CO 705
4. 48228 DETROIT, MI 679
5. 95823 SACRAMENTO, CA 634
6. 48205 DETROIT, MI 634
7. 48224 DETROIT, MI 583
8. 89031 N. LAS VEGAS, NV 575
9. 80239 DENVER, CO 553
10. 48219 DETROIT, MI 549

[VIA CNN MONEY](#) INCOME STATS VIA CITY DATA

RISKIEST HOUSING MARKETS

PMI CALCULATES ITS RISK INDEX BY TRACKING AND COMPARING HOME-PRICE APPRECIATION, LABOR MARKETS, EMPLOYMENT LEVELS, AFFORDABILITY AND THE PERCENTAGE OF MONTHLY INCOME THAT A MORTGAGE TAKES UP IN EACH MARKET. THE NEW MODEL INCLUDES ADDITIONAL WEIGHT GIVEN TO AREAS WITH RECENT VOLATILITY; THIS SHOWS A RISK TOWARDS CALIFORNIA AND FLORIDA. THE 65.2% FOR RIVERSIDE, CA INDICATES THERE IS A 65.2% CHANCE THAT PRICES WILL BE LOWER IN THE NEXT TWO YEARS.

FIVE OF ELEVEN MSA'S FACING A GREATER THAN 50% CHANCE OF A PRICE DECLINE ARE IN CALIFORNIA AND FOUR ARE IN FLORIDA. TEXAS, PENNSYLVANIA, OHIO AND INDIANA ARE THE LOWEST RANKED STATES FOR A PRICE DECLINE WITH A LESS THAN 10% CHANCE OF DECLINING VALUES IN THE NEXT 2 YEARS. THE COMMON TRAITS OF MARKETS WITH THE GREATEST RISK OF DECLINE ARE RAPIDLY RISING PRICES FOLLOWED BY A SHARP SLOWDOWN IN THE RATE OF APPRECIATION. THE 20 MARKETS WITH THE BIGGEST POTENTIAL FOR A PRICING CORRECTION ARE:

<u>METROPOLITAN AREA</u>	<u>CHANCE OF DECLINE</u>
RIVERSIDE-SAN BERNARDINO, CA	65.2%
PHOENIX-MESA-SCOTTSDALE, AZ	64.6%
LAS VEGAS-PARADISE, NV	61.4%
WEST PALM BEACH- BOCA RATON, FL	60.7%
LOS ANGELES-LONG BEACH, CA	58.6%
SANTA ANA-ANAHEIM-IRVINE, CA	57.7%

OAKLAND-FREEMONT-HAYWARD, CA	57.2%
ORLANDO-KISSIMMEE, FL	56.3%
SACRAMENTO-ARDEN, CA	56.0%
SAN DIEGO-CARLSBAD-SAN MARCOS, CA	55.5%

<u>METROPOLITAN AREA</u>	<u>CHANCE OF DECLINE</u>
FORT LAUDERDALE-POMPANO BEACH, FL	54.2%
MIAMI-MIAMI BEACH-KENDALL, FL	52.4%
TAMPA-ST. PETERSBURG-CLEARWATER, FL	50.6%
BOSTON-QUINCY, MA	50.1%
WASHINGTON, DC/ARLINGTON-ALEXANDRIA, VA	50.0%
SAN JOSE-SUNNYVALE-SANTA CLARA	49.1%
VIRGINIA BEACH-NORFOLK, NEWPORT NEWS, VA	47.6%
NASSAU-SUFFOLK, NY	44.5%
SAN FRANCISCO-SAN MATEO, CA	41.1%
BALTIMORE-TOWSON, MD	40.0%

NATIONAL FRAUD OVERVIEW

THE FBI INDICATES MORTGAGE FRAUD IS ONE OF THE FASTEST GROWING WHILE COLLAR CRIMES IN THE UNITED STATES. MORTGAGE FRAUD IS DEFINED AS "A MATERIAL MISSTATEMENT, MISREPRESENTATION OR OMISSION RELIED UPON BY AN UNDERWRITER OR LENDER TO FUND, PURCHASE OR INSURE A LOAN." ACCORDING TO THE FBI THERE ARE TWO TYPES OF MORTGAGE FRAUD; FRAUD FOR PROFIT AND FRAUD FOR PROPERTY.

FRAUD FOR PROPERTY IS TYPICALLY THE HOMEOWNER MAKING MISREPRESENTATIONS REGARDING INCOME, PERSONAL DEBT OR PROPERTY VALUE. THE BORROWER WANTS TO OWN THE PROPERTY AND INTENDS TO REPAY THE LOAN. THIS IS ABOUT 20% OF THE MORTGAGE FRAUD. FRAUD FOR PROFIT INCLUDES INDUSTRY PROFESSIONALS AND THERE ARE GENERALLY MULTIPLE LOANS WITH SEVERAL FINANCIAL INSTITUTIONS.

THE TOP 10 STATES FOR FRAUD (2007) FNMA

- UTAH
- FLORIDA
- CALIFORNIA
- NEW YORK
- IDAHO
- MICHIGAN
- ARIZONA
- GEORGIA
- MINNESOTA
- ILLINOIS

THE TOP 10 ZIP CODES FOR FRAUD

(FANNIE MAE INDICATES INDIANAPOLIS AND MEMPHIS ARE HIGH ON THE LIST AS THEY HAD SEVERAL 50+ LOAN FRAUD FOR PROFIT PROBLEMS)

- MEMPHIS, TN 381XX
- INDIANAPOLIS, IN 462XX
- DETROIT, MI 482XX
- ATLANTA, GA 303XX
- DECATUR, GA 300XX
- POMPANO BEACH, FL 330XX
- ELGIN, IL 601XX
- HOUSTON, TX 770XX
- MINNEAPOLIS, MN 554XX
- PALATINE, IL 600XX

HOME SALES

BELOW IS A CHART THAT SHOWS THE SECOND QUARTER OF 2007 IN COMPARISON TO THE PREVIOUS YEARS ALONG WITH A PERCENTAGE OF CHANGE. NOTE THAT THE TOTAL OF EXISTING HOME SALES (NOT INCLUDING NEW CONSTRUCTION) IS DOWN BY OVER 10% NATIONWIDE. THIS IS DUE IN LARGE PART TO THE WEST WHICH IS THE LARGEST PERCENTAGE DECLINER WITH NEARLY A 17% REDUCTION. AS THE READER WILL SEE IN A FOLLOWING SECTION, THERE ARE REASONS TO BELIEVE THAT THE DECLINE IN PRICING SEEN IN MANY LOCAL MARKETS MAY SPUR SALES IN COMING QUARTERS.

TOTAL SALES – EXISTING HOMES (NAR)

	A	B	C	D	E	F	G	H	I	J
1	State	2004	2005	2006	2006.II	2006.III	2006.IV	2007.I r	2007.II p	%Chya
2	(Seasonally Adjusted Annual Rate, 000s)									
3	United States	6,778	7,076	6,478	6,627	6,287	6,263	6,423	5,913	-10.8%
4	Northeast	1,113	1,169	1,086	1,123	1,050	1,060	1,140	1,047	-6.8%
5	Midwest	1,550	1,588	1,483	1,520	1,427	1,433	1,490	1,393	-8.4%
6	South	2,540	2,702	2,563	2,590	2,523	2,493	2,507	2,313	-10.7%
7	West	1,575	1,617	1,346	1,393	1,290	1,277	1,283	1,157	-16.9%

NATIONAL ECONOMIC FORECAST

DR. RAGEEV DHAWAN, DIRECTOR OF THE ECONOMIC FORECASTING CENTER AT THE ROBINSON COLLEGE OF BUSINESS, GEORGIA STATE UNIVERSITY HAS ISSUED THE FOLLOWING FORECAST FOR THE U.S. ECONOMY FOR 2007 REVISED AS OF AUGUST, 2007:

- DR. DHAWAN INDICATES THE FEDERAL RESERVE BANK “MADE A HALF STEP” BY DECREASING THE FEDERAL FUNDS RATE BY 50 BASIS POINTS BUT HE FEELS THEY WILL NEED TO DO MUCH MORE

TO MAKE A REAL IMPACT. THE FED HAS SINCE LOWERED INTEREST RATES BY 50 BASIS POINTS BUT DR. DHAWAN INDICATES THAT A TOTAL OF 75 BASIS POINTS WILL BE NEEDED TO HELP THE ECONOMY PICK UP STEAM.

- REAL GDP GROWTH RATE IS DOWN FROM 2.9% TO 1.9% AFTER GROWING AT 2.9% IN 2006. THE 1.9% GROWTH RATE FOR 2007 IS A SIGNIFICANTLY DECREASE FROM THE ESTIMATED 2.6% FROM A PREVIOUS REPORT.
- ON AN ANNUAL BASIS, HOUSING STARTS WILL AVERAGE 1.454 MILLION UNITS IN 2007, RISE TO 1.533 UNITS IN 2008 AND RISING TO 1.619 MILLION UNITS IN 2009.

THE CORE INFLATION RATE WILL EASE FROM THE 2006 2.5% LEVEL TO 2.2% IN 2007, 1.9% IN 2008 AND 2.1% IN 2009 - (END SEGMENT)

REGION BY REGION ANALYSIS

MIDWEST

IN THE PAST TWO QUARTERS, WHAT HAS BEEN ON THE MINDS OF MOST MIDWESTERNERS IS THE ISSUE OF TAXES. IN RESPONSE TO WHAT AMOUNTS TO A DEADENED ECONOMY IN MANY SEGMENTS OF THIS REGION, STATE AND LOCAL GOVERNMENTS HAVE GONE THEIR CITIZENS AND ASKED FOR MORE MONEY. ASK VIRTUALLY ANYONE AND THEY WILL TELL YOU THAT WITH THE HOUSING MARKET THE WAY IT IS, FORECLOSURE SCREAMING, JOBS LEAVING LOCAL COMMUNITIES AT AN ALARMING PACE AND WAGES DECLINING, THIS IS HARDLY THE TIME TO LOOK FOR REVENUE BY AN INCREASE IN TAXES. THE MESSAGE MAY HAVE LOUD BUT IT IS ANYTHING FROM CLEAR AS LEGISLATURES IN OHIO AND MICHIGAN ARE AMONG THE MOST ACTIVE IN DOLLAR TAKING THESE DAYS.

ACCORDING TO THE FEDERAL RESERVE BANK OF CHICAGO, "OHIO ENACTED A MODEST TAX ON BUSINESS GROSS RECEIPTS IN 2005, REPLACING A LOCAL TAX ON CAPITAL MACHINERY AND EQUIPMENT. MICHIGAN HAS PHASED OUT ITS LARGEST BUSINESS TAX AND IS NOW CONSIDERING HOW TO REPLACE THE REVENUES THAT IT FORMERLY GENERATED WITH ITS SINGLE BUSINESS TAX." NOTE: IN THE PAST WEEK, MICHIGAN LEGISLATURES AND THE GOVERNOR HAVE COME TO AN AGREEMENT TO RAISE THE STATE INCOME TAX AND IMPOST A TAX ON MANY SERVICES WHICH HAS BEEN DUBBED AN "INTERIM" MEASURE. THE FED ALSO REPORTS THAT "ILLINOIS WAS CONSIDERING A LARGE "BUSINESS" TAX ON BUSINESS GROSS RECEIPTS TO FUND EDUCATION AND A SUBSIDIZED HEALTH CARE INITIATIVE. TO PAY FOR IT, GOVERNOR ROD BLAGOJEVICH ADVOCATED A LARGE BUSINESS TAX ON GROSS RECEIPTS BECAUSE IT WOULD BE PAID BY THOSE WHO COULD AFFORD IT. INTERESTINGLY, THE LIEUTENANT GOVERNOR PAT QUINN DISAGREED ON THE VERY SAME GROUNDS."

REGIONAL EVENTS

THE INDUSTRIAL BASE OF THE MIDWEST IS WELL KNOWN FOR ITS MANY UPS AND DOWNS. RECENT UAW/GENERAL MOTORS CONTRACT TALKS AVERTED AN EXTENDED STRIKE WHICH MAY BE A LEAD IN TO IMPROVING CONDITIONS FOR THE STRUGGLING AUTOMAKERS OF DETROIT.

CHICAGO WILL BE HOLDING A CONFERENCE WHERE CENTER-STAGE WILL BE THE GROWING TOPIC OF TRANSPORTATION AND GHG REGULATION. ACCORDING TO BILL TESTA AT FRC, "FOLLOWING ELECTRIC POWER GENERATION, THE TRANSPORTATION SECTOR IS THE SECOND LARGEST SOURCE OF CARBON DIOXIDE EMISSIONS IN THE MIDWEST, AS WELL AS IN THE OVERALL U.S. (CARBON DIOXIDE EMISSIONS GENERALLY ARISE FROM THE BURNING OF FOSSIL-BASED TRANSPORTATION FUEL—GASOLINE MORE SO THAN DIESEL FUEL.)"

IN ORDER FOR THE REGION TO REBOUND AND FORGE AHEAD ON A PATH OF IMPROVED BUSINESS ATTRACTION, INDUSTRIES SUCH AS THE AUTOMAKERS, TRANSPORTATION AND GENERAL MANUFACTURING MUST FIND A WAY TO CREATE AND MAINTAIN JOBS IN AN EVER COMPETING, EVOLVING WORLD MARKETPLACE. MANY OF THE REGIONS' EXPERTS ARE CALLING ON HIGHER EDUCATION TO PLAY A KEY ROLE IN THE DEVELOPMENT OF BUSINESS STRATEGIES.

HAS THE TIME COME FOR AN INCREASE IN TOLL ROADS AND PRIVATIZATION OF CERTAIN HIGHWAYS AND BRIDGES? ECONOMISTS HAVE LONG BEEN CONSIDERING THIS IDEA AS ONE THAT IS WORTHY OF BEING ADVOCATED. MUCH LIKE OTHER PARTS OF THE COUNTRY WITH HIGH VOLUME LANES, TOLL ROADS, ETC., THE MIDWEST MAY SEE MORE OF THESE IN THE NEAR FUTURE (ONLY A LIMITED NUMBER CURRENTLY EXIST).

REGIONAL STATS

THE MIDWEST SAW A DECLINE. A DECLINE IN TOTAL EXISTING HOME SALES OF NEARLY 8.5% AS COMPARED TO THE SECOND QUARTER OF 2006. THE FOLLOWING SUMMARIZES THE MAJOR STATES PERFORMANCE IN THE 2ND QUARTER:

ILLINOIS	-16.5%
INDIANA	+1.4%
IOWA	+4.1%
KANSAS	-6.1%
MICHIGAN	-12.2%
OHIO	-7.3%

AFFORDABILITY

AS SHOWN IN THE CHART BELOW (CNN.COM – MONEY), THE MIDWEST HAS THE PREDOMINANT SHARE OF AFFORDABLE HOUSING IN THE U.S. OHIO CAPTURES THE MOST CITIES ON THE LIST FOLLOWED BY MICHIGAN.

MOST AFFORDABLE

CITY	STATE	PRICE	INCOME
INDIANAPOLIS	IN	\$113,000	\$65,100
YOUNGSTOWN	OH	\$83,000	\$52,100
DETROIT	MI	\$92,000	\$56,700
TOLEDO	OH	\$105,000	\$58,900
BUFFALO	NY	\$89,000	\$58,300
DAYTON	OH	\$100,000	\$59,800
GRAND RAPIDS	MI	\$124,000	\$61,500
AKRON	OH	\$101,000	\$61,300
ROCHESTER	NY	\$111,000	\$64,100
ST LOUIS	MO	\$124,000	\$65,800

FRAUD

- THE MIDWEST INCLUDES SEVERAL STATES THAT OCCUPY UPPER RANKS IN TERMS OF MORTGAGE FRAUD. MICHIGAN (DETROIT) AND ILLINOIS ARE NOTABLES WITHIN THE TOP 10 – OTHERS ARE IN THE TOP 20
- FRAUD SCHEMES RUN THE GAMUT OF VARYING TYPES IN THE MIDWEST WITH FRAUDULENT IDENTIFICATION, INSIDER INVOLVEMENT AND FALSIFIED RECORDS BEING AT THE TOP OF THE LIST.
- THE MIDWEST ACCOUNTS FOR 4 OF THE COUNTRY’S HOTTEST MORTGAGE FRAUD HOT SPOTS AND TWO OTHERS THAT ARE “PROBLEMATIC MORTGAGE FRAUD AREAS”

FORECLOSURES

- **ACCORDING TO “ACTIVERAING.COM”, THE TOP TEN FORECLOSURE STATES ARE AS FOLLOWS:**
 1. NEVADA
 2. COLORADO
 3. CALIFORNIA
 4. GEORGIA
 5. ARIZONA
 6. MICHIGAN
 7. FLORIDA
 8. OHIO
 9. INDIANA
 10. ILLINOIS

- FOUR OF THE TEN STATES ARE SITUATED IN THE MIDWEST.
- MICHIGAN HIT 14,242 FORECLOSURE FILINGS IN SEPTEMBER, A NUMBER ALMOST TWICE THAT IN THE PREVIOUS YEAR (7,846 IN SEPT. 2006)
 - SOME MIDWEST STATES ARE ROLLING OUT PLANS TO HELP THE FORECLOSURE CRISIS INCLUDING MICHIGAN AND OHIO
 - PLANS INCLUDE A TAXABLE-BOND PROGRAM AND INCOME RESTRICTION REFINANCING PROGRAMS

MIDWEST SAMPLER

MICHIGAN

ONE LOOK AT A LOCAL MLS IN THE DETROIT AREA AND IT WOULD BE QUITE EASY TO SEE THAT THERE ARE SEVERAL SIGNIFICANT ISSUES ONGOING IN THE HOUSING MARKET. MICHIGAN, AND ITS LARGEST CITY, DETROIT IS LARGELY BASED ON AN INDUSTRIAL ECONOMY. AUTOMAKERS HAVE HAD THEIR WELL KNOWN TROUBLES AND, WHILE LABOR TALKED HAVE AVERTED STRIKES, ETC. NEWLY APPROVED TAXES TO SAVE THE STATE FROM GOVERNMENT SHUT DOWN ARE LIKELY TO HAVE A LARGE IMPACT ON HOMEOWNERS.

INDICATIVE OF THE CONCEPT THAT THERE IS “NO SAFE HAVEN”, THE STATE’S MOST AFFLUENT COUNTY, OAKLAND, HAS SEEN ITS SHARE OF DECLINE, AS WELL. TRADITIONALLY KNOWN FOR ITS STRONG STABILITY AND GROWTH, THE FOLLOWING ARTICLE DESCRIBES WHAT HAS TAKEN PLACE IN THE WAKE OF STATE-WIDE HOUSING DECLINES:

OAKLAND COUNTY HOME SALE STATISTICS-THIRD QUARTER 2007

PUBLISHED OCTOBER 12TH, 2007 IN MARKET UPDATES, METRO DETROIT, ROYAL OAK MI REAL ESTATE, TROY MI REAL ESTATE, BLOOMFIELD HILLS MI REAL ESTATE, BEVERLY HILLS MI REAL ESTATE, BIRMINGHAM MI REAL ESTATE.

HOUSING MARKET FIGURES FOR OAKLAND COUNTY IN SEPTEMBER REFLECT A DECREASE IN SALES ACTIVITY COMPARED TO SEPTEMBER 2006: SALES AND SALES

APPRAISAL ISSUES:

- THE USE OF NON-MLS SALES IN APPRAISAL HAS BEEN THE MOST SIGNIFICANT CONCERN IN RECENT REPORTS. SINCE SALES HAVE NOSE-DIVIDED AND PRICING HAS FOLLOWED, THERE HAVE BEEN FEWER AND FEWER LISTINGS IN THE MLS. THAT HAS PRODUCED THE TROUBLING ISSUE OF USING PUBLIC RECORDS AS COMPARABLES. PUBLIC RECORDS INCLUDE ALL KINDS OF FSBO TRANSACTIONS, UN-SAVORY DEALS MADE BETWEEN KNOWN PARTIES, ETC. WHEN AN APPRAISAL EITHER FAILS TO CITE MLS AS A COURSE OF DOES NOT INCLUDE CORRESPONDING MLS NUMBERS, A RED FLAG SHOULD BE IMMEDIATELY RAISED.
- THE USE OF "DATED" TRANSACTIONS, MANY GOING BACK TO MID TO LATE 2006 IS THE NEXT STRONGEST CONCERN. THE MARKET HAS BEEN SUFFERING WHICH IS WELL KNOWN. THE USE OF SALES THAT ARE NOW DATED OVER 8-12 MONTHS HAVE LESS AND LESS TO DO WITH THE CURRENT ECONOMIC MARKETPLACE.

ILLINOIS

- THERE ARE POCKETS OF ILLINOIS, INCLUDING SOME SECTIONS OF CHICAGO THAT HAVE SEEN SOME REVERSAL OF DOWNTURNS AND MAY BE HEADING TOWARDS STABILIZATION.
- ACCORDING TO HEARDRICK-WAGNER CONSULTING GROUP, THERE IS A LOT OF CONFUSION IN THE CHICAGO MARKETPLACE AS TO PERCEPTION. THE FOLLOWING IS FROM THEIR CHIEF OFFICER, MR. ROBERT HEADRICK: "...WHILE THE PUBLIC HEARS ALL KINDS OF REPORTS AS TO WHAT KIND OF DECLINE THE REAL ESTATE MARKET IS EXPERIENCING, THAT DATA IS EXTREMELY IRRELEVANT TO WHAT EACH OF US EXPERIENCES IN OUR OWN INDIVIDUAL MARKETS. THERE IS NO DOUBT THE MARKET IS SOFT RIGHT NOW AS THE ATTACHED ABSORPTION NUMBERS SHOW. THE KEY THEN IS TO DETERMINE HOW THIS SOFT MARKET IS AFFECTING VALUES, NOT TO USE OR ALLOW THE PUBLIC TO CONSIDER THESE CHANGES IN AVERAGE SALE PRICES FROM REGIONAL OR NATIONAL DATA TO AFFECT WHAT IS REALLY GOING WITH THEIR OWN INDIVIDUAL MARKET PLACE."

			June, 2007			July, 2007			August, 2007		
			# Actives	DOM	Months Supply	# Actives	DOM	Months Supply	# Actives	DOM	Months Supply
Chicago, Entire City - 8001-8077											
\$ 0	\$ 249,999		5,391	141	6.58	5,490	143	6.84	5,479	148	7.14
\$ 250,000	\$ 499,999		7,547	160	5.82	7,484	166	5.85	7,330	168	5.94
\$ 500,000	\$ 749,999		1,683	165	6.42	1,678	171	6.33	1,641	179	6.25
\$ 750,000	\$ 999,999		427	210	5.74	415	203	5.55	399	206	5.38
\$ 1,000,000	\$ 1,499,999		316	236	7.02	308	237	6.81	306	246	6.64
\$ 1,500,000	\$ 1,999,999		172	265	9.92	159	274	8.83	169	276	9.57
\$ 2,000,000	and up		191	316	12.73	185	265	11.87	182	274	12.34
ALL			15,727	160	6.21	15,719	163	6.28	15,506	167	6.42

OHIO

THE CLEVELAND REAL ESTATE MARKET HAS SEEN A DECLINE IN SALES PRICES OF AS MUCH AS 10% IN MANY PARTS OF CUYAHOGA COUNTY SINCE MID 2006. WHILE OTHER PARTS OF NORTHWESTERN PENNSYLVANIA AND NORTHEASTERN OHIO HAVE SEEN A GENERAL DECLINE IN SALES PRICES, THE CLEVELAND MARKET CONTINUES TO BE SIGNIFICANTLY IMPACTED BY THIS PHENOMENA DUE TO THE HIGH LEVEL OF FRAUDULENT ACTIVITY OCCURRING. THIS ACTIVITY IS PRIMARILY THE RESULT OF INVESTOR FLIPS WITHIN CUYAHOGA COUNTY.

DUE TO THE STRICT CITY CODE ORDINANCES WHICH TYPICALLY REQUIRE AN INSPECTION BY A CITY HOUSING INSPECTOR PRIOR TO THE TRANSFER OF REAL ESTATE, THERE ARE A LARGE NUMBER OF TRANSFERS THAT REQUIRE SIGNIFICANT REPAIRS TO BRING THE PROPERTIES INTO COMPLIANCE WITH LOCAL CODES. IF ALL OF THE REPAIRS ARE NOT COMPLETED PRIOR TO THE TRANSFER, AN ESCROW ACCOUNT IS ESTABLISHED WITH UP TO 150% OF THE ESTIMATED COST OF REPAIRS. AS A RESULT, LARGE REPAIRS THAT ARE NECESSARY TO NEGLECTED OR VACANT PROPERTIES OFTEN REQUIRE A SIGNIFICANT UPFRONT COST WHICH LIMITS THE NUMBER OF QUALIFIED BUYERS (PRIMARILY INVESTORS) AND OFTEN DRIVES THE PRICE DOWN TO REFLECT THE HIGH COST OF ACQUISITION.

IF THERE ARE LEGITIMATE LARGE REPAIRS NECESSARY FOR A PROPERTY THAT WOULD REQUIRE A SIGNIFICANT ESCROW, THEN A LARGE INCREASE IN VALUE OVER A SHORT PERIOD OF TIME WOULD TYPICALLY BE CONSIDERED REASONABLE. HOWEVER, THIS DOES NOT ALWAYS APPLY TO HOMES THAT ARE PRIMARILY UPDATED COSMETICALLY.

RECENT TRANSACTIONS INVOLVING FLIPS WITH MINIMAL COSMETIC UPDATES, LARGE INCREASES IN VALUE OVER A VERY SHORT TIME FRAME AND THE USE OF DATED COMPARABLES OVER SIX MONTHS OLD TO JUSTIFY THE INCREASE IN VALUE ARE THE TYPES OF TRANSACTIONS THAT SIGNIFICANTLY ELEVATE COLLATERAL RISK IN THIS MARKET.

MONTHLY STATISTICS THROUGH THE LOCAL MLS SHOW A NOTICEABLE DECLINE IN SALES ACTIVITY FOR THE FIRST 3 QUARTERS OF 2007. WHILE SOME OF THIS MAY BE ATTRIBUTABLE TO SEASONAL AND WEATHER RELATED ACTIVITY, NEW LISTINGS REMAIN RELATIVELY HIGH WHICH HAS CONTRIBUTED TO THE DECLINES IN SALES PRICES FOR THIS MARKET. WITH SALES ACTIVITY RELATIVELY FLAT FOR THE PAST

FEW QUARTERS, THE NUMBER OF PENDING SALES WAS UP, WHICH COULD INDICATE A SOON-TO-BE INCREASE IN SALES ACTIVITY AND A MOVE TOWARDS A MORE BALANCED SUPPLY AND DEMAND. THAT SAID, THERE IS NO STEADFAST DATA OR CURRENT EVIDENCE THAT SALES PRICES ARE REBOUNDED FROM THE PREVIOUS DECLINES IN 2006.

INDIANA

EARLY THIS YEAR, CNN.COM (MONEY) PUBLISHED THE FOLLOWING: "INDIANAPOLIS WAS, ONCE AGAIN, THE MOST AFFORDABLE MAJOR HOUSING MARKET IN THE UNITED STATES. THE MEDIAN HOME SOLD THERE, ALREADY LOW AT \$122,000 DURING THE PREVIOUS QUARTER, FELL TO \$113,000 DURING THE LAST THREE MONTHS OF THE YEAR. WITH A MEDIAN INCOME OF \$65,000, 89 PERCENT OF THE HOMES SOLD WERE AFFORDABLE TO THE AVERAGE FAMILY."

SOUTH

SALES OF EXISTING HOMES IN THE SOUTH REGION ARE DOWN 12.7%, MEDIAN SALES PRICE IS DOWN SLIGHTLY BY 0.7% AND THERE IS A 10 MONTH SUPPLY OF HOMES ON THE MARKET. (NAR) THE UNEMPLOYMENT RATE HAS DECREASED 0.2% FROM 4.4% IN 2006 TO 4.2% IN JUNE, 2007. THE SOUTH CONTINUES TO BE A STABLE MARKET OVERALL, WITH FLORIDA AND THE GULF COAST PROVIDING THE MOST ISSUES FOR THE REGION.

FRAUD

- UNFORTUNATELY FRAUD IS ALIVE AND WELL IN THE SOUTH. OF THE TOP 10 STATES FOR MORTGAGE FRAUD, THE SOUTH INCLUDES 3. FLORIDA, GEORGIA AND TEXAS ARE AMONG THE TOP TEN STATES AND VIRGINIA, TENNESSEE, NORTH CAROLINA, AND MARYLAND ARE PROBLEMATIC PER THE FBI.
- THE FRAUD COMMITTED IN THE SOUTHERN STATES IS BASICALLY THE SAME, IDENTITY THEFT, FALSIFYING DOCUMENTS, ILLEGAL FLIPPING AND STRAW BUYERS AS A PART OF ELABORATE SCHEMES. THE DIFFERENCE IS THE AMOUNT OF THE FRAUD AND THE VOLUME. GEORGIA, TEXAS AND FLORIDA DOMINATE FRAUD IN THE SOUTH WITH SCHEMES IN THE \$10 TO \$20+ MILLION RANGE WHEREAS AL & LA HAVE \$1 MILLION SCHEMES. THE SMALLER, MORE RURAL STATES WILL SEE MORE VA, HUD AND MANUFACTURED HOME FRAUD.
- PHILLIP HILL IS THE LATEST TO BE CONVICTED IN GEORGIA FOR COMMITTING \$60,000,000 IN FRAUD AND HE WAS RECENTLY SENTENCED TO 28 YEARS IN FEDERAL PRISON.
- THE SOUTHEAST ACCOUNTS FOR 23% OF THE US MORTGAGE FRAUD PER THE FBI.

FORECLOSURES

- FORECLOSURES HIT 5.12% OF ALL OUTSTANDING MORTGAGES.
- FORECLOSURES ARE UP OVER 55% IN THE FIRST 1/2 OF 2007 AND THEY MAY REACH 2,000,000 FOR THE YEAR 2007. THERE HAVE BEEN 925,986 FORECLOSURES FOR THE FIRST 1/2 OF 2007 PER REALTYTRAC NEWS.
 - THIS EQUATES TO 1 FILING FOR EVERY 134 HOUSEHOLDS.
 - FLORIDA RANKED 5TH WITH 1 FORECLOSURE FILING FOR EVERY 81 HOUSEHOLDS
 - TEXAS REPORTED 69,471 FORECLOSURE FILINGS OR THE THIRD LARGEST
 - GEORGIA RANKED 7TH.
- THERE ARE 7 STATES THAT ARE DRIVING THE INCREASING FORECLOSURE RATES, CALIFORNIA, FLORIDA, NEVADA, ARIZONA, AND OHIO, MICHIGAN, AND INDIAN. THERE WERE 26 STATES THAT SAW RATES DECLINE BUT THE TOP FOUR HAD SIGNIFICANT INCREASES IN FORECLOSURES.

SOUTHERN SAMPLER

ARKANSAS

- SALES ARE DOWN 29% IN BENTON COUNTY, 38% IN MADISON COUNTY AND 11% IN WASHINGTON COUNTY BASED ON CHANGE FROM 2006 TO JUNE 2007.
- PRICES OF NEW AND EXISTING HOMES ARE DOWN 9.9% IN BENTON COUNTY, 9% IN MADISON COUNTY AND 8.75% IN WASHINGTON COUNTY.
- PULASKI COUNTY APPEARS TO BE STABLE WITH A .91% INCREASE IN PRICES.
- STATEWIDE PRICES ARE DOWN 4.94% AND SALES ARE DOWN 7.71% FOR YTD JUNE, 2007 AS COMPARED TO YTD JUNE, 2006. (ARKANSAS ASSOCIATION OF REALTORS)

FLORIDA

ACCORDING TO THE UNIVERSITY OF FLORIDA BERGSTROM CENTER FOR REAL ESTATE STUDIES, THE SINGLE FAMILY HOUSING MARKET IN FLORIDA IS MOVING TOWARDS STABILIZATION FOR THE 2ND QUARTER OF 2007. HOWEVER, THE CONDOMINIUM MARKET IS IN A "MORE STRESSED CONDITION". SALES ARE DOWN FOR EXISTING HOMES BY 26% AND CONDOMINIUM SALES ARE DOWN 25%. THE MEDIAN SALES PRICE FOR EXISTING SINGLE FAMILY HOMES IS DOWN 6% FROM \$246,800 TO \$231,900. THE CONDOMINIUM MEDIAN SALES PRICE IS DOWN 3% FROM \$201,900 TO \$196,800.

FORECLOSURES WERE FUELED IN FLORIDA BY THE DROVES OF INVESTORS THAT SPURRED A RASH OF CONDO DEVELOPMENT IN MIAMI, FT LAUDERDALE AND OTHER COASTAL TOWNS. SINGLE FAMILY HOME PRICES WERE ALSO DRIVEN UP IN PRICE ALL OVER THE SUNSHINE STATE. THE DEFAULT RATES FOR NON-OWNER-OCCUPIED UNITS WERE 25% FOR PRIME LOANS AND 14% FOR SUBPRIME LOANS. (MORTGAGE BROKERS ASSOCIATION).

APPRAISAL ISSUES:

- THE BIGGEST ISSUES IN THE PAST QUARTER ARE APPRAISAL REPORTS THAT USE DATED SALES, PARTICULARLY THOSE FROM 2006. IT IS BECOMING MORE DIFFICULT TO FIND SALES DATA AS THE MARKET SLOWS BUT GOING BACK IN TIME IS NOT A VALID PLACE TO GO FOR SALES AS THE MARKET WAS MUCH STRONGER IN 2006. THIS WOULD INDICATE THESE SALES ARE LESS RELIABLE MARKET INDICATORS FOR CURRENT MARKET CONDITIONS.
- IN TALKING WITH ACTIVE APPRAISERS IN THE FLORIDA MARKET, MOST MARKETS ARE STABILIZING AND THEY ARE NOT SEEING THE SAME ISSUES WITH DECLINING PRICES OR AT LEAST NOT AT THE SAME RATE. CONDOMINIUM CONVERSION PROJECTS ARE THE BIGGEST AREA OF CONCERN FOLLOWED BY THE HIGH DOLLAR CONCESSIONS PAID TO SELL CONDOMINIUMS, INCREASING THE COLLATERAL RISK TO THESE TRANSACTIONS.

GEORGIA

- GEORGIA WILL FOLLOW MANY OF THE WOES FELT NATIONALLY. IF THE ECONOMY SLOWS FURTHER, GA WILL ALSO SEE A DECLINE IN THE NUMBER OF HOMES SOLD. THERE ARE CURRENTLY OVER 108000+ HOMES FOR SALE IN ATLANTA, GA AND THE TYPICAL DAYS ON MARKET IS OVER 250 INDICATING THE MARKET IS IN OVER SUPPLY. HOMES OVER \$1,000,000 TYPICALLY TAKE 18+ MONTHS TO SELL.
- GEORGIA CONTINUES TO BE AT THE TOP OF THE FRAUD AND FORECLOSURE LISTS. GEORGIA RANKS 8TH FOR FRAUD AND IS RANKED 7TH FOR FORECLOSURES.

LOUISIANA {POST KATRINA}

THE HIGHER END HOMES ARE HAVING A DIFFICULT SELL AS THERE IS A 23 MONTH SUPPLY OF HOMES FROM \$750000 TO \$1,000,000 VS. A 10 MONTH SUPPLY OF \$300000 TO \$325000. THERE ARE MORE HOMES ON THE MARKET THAT WHEN THAN DURING THE OIL BUST PER A USA TODAY ARTICLE TITLED "NEW ORLEANS HOME SELLER STRUGGLE". A HEALTHY MARKET HAS A 5 TO 6 MONTH SUPPLY OF HOMES ON THE MARKET.

ONE PROBLEM IS THAT PROFESSIONALS (DOCTORS, LAWYERS, AND BANKERS) ARE MOVING AWAY AND ABOUT 1/3 OF RESIDENTS ARE CONSIDERING LEAVING WITHIN THE NEXT 2 YEARS. RESIDENTS MENTIONED THEIR FRUSTRATION WITH CITY GOVERNMENT AS THEIR REASON FOR LEAVING. LOUISIANA IS SO DESPERATE FOR MEDICAL PROFESSIONALS THEY ARE OFFERING UP TO \$110,000 IN BONUSES, LOAN REPAYMENT TO KEEP DOCTORS AND NURSES.

INSURANCE IS STILL A BIG PROBLEM AND SELLERS ARE OFFERING TO PAY THE FIRST YEAR OF PREMIUMS AS THEY HAVE JUMPED, AS AN EXAMPLE, FROM \$1,600 PRE-KATRINA TO \$6,000 POST KATRINA. AND A \$400,000 TO \$500,000 HOME ON THE COAST MAY HAVE PREMIUMS OF \$10,000 TO \$12,000 PER YEAR AS MUCH AS 3 TIMES MORE THAN PRE KATRINA RATES. (USA TODAY).

CNNMONEY.COM INDICATES THAT TWO LOUISIANA PARISHES LOST MORE THAN 1/2 OF THEIR HOMES DUE TO DESTRUCTION BY H. KATRINA. ORLEANS PARISH LOST 107,000 HOUSING UNITS AND ST BERNARD PARISH HAD THE HIGHEST RATE OF DESTRUCTION, LOSING 76.2% OF ITS HOMES.

MARYLAND/VIRGINIA/DISTRICT OF COLUMBIA

AN ENVIRONMENTAL HAZARD WAS REVEALED IN A NEW SECTION OF THE PRESTIGIOUS COMMUNITY KNOWN AS TURF VALLEY IN HOWARD COUNTY, MARYLAND. THE NEW SECTION OF TURF VALLEY IS TO INCLUDE MORE THAN 1,000 HOMES ALONG WITH OFFICES AND STORES. TURF VALLEY ALREADY INCLUDES THOUSANDS OF HOMES, GOLF COURSES, AND A RESORT HOTEL AND CONFERENCE CENTER.

REPORTEDLY, TESTING COMPLETED TWO YEARS AGO FOUND A HIGH LEVEL OF ARSENIC ON THE PROPERTY. COUNTY OFFICIALS JUST RECENTLY GAINED KNOWLEDGE OF THIS TESTING AND ARE NOW CALLING FOR MANDATORY TESTING OF LAND AT THE SITE. THE CONTAMINATION HAS BEEN REPORTED TO STATE OF MARYLAND OFFICIALS AND ASKED TURF VALLEY'S OWNER TO APPLY FOR THE MARYLAND DEPARTMENT OF ENVIRONMENT'S CLEANUP PROGRAM. TESTS SHOWED THE LAND HAD 300 PARTS PER MILLION OF ARSENIC WHICH IS WELL OVER THE 4.9 PARTS PER MILLION THAT IS COMMON IN CENTRAL MARYLAND. APPARENTLY, THE TEST ALSO FOUND 640 PARTS PER MILLION OF LEAD WHICH EXCEEDS THE SAFE LEVEL OF 400 PARTS PER MILLION PER COUNTY OFFICIALS.

ARSENIC AND LEAD SOIL CONTAMINATION CAN BE CORRECTED BY REMOVING THE CONTAMINATED SOIL. ARSENIC IS A NATURALLY OCCURRING ELEMENT. IT IS POISONOUS WHEN CONSUMED IN HIGH DOSES. SMALLER AMOUNTS CAN CAUSE CANCER, ABNORMAL HEART RHYTHMS AND LOWER IQ SCORES IN CHILDREN WITH PROLONGED EXPOSURE, ACCORDING TO FEDERAL HEALTH OFFICIALS.

QUESTIONS ARE BEING RAISED REGARDING THE EXISTING SURROUNDING COMMUNITY THOUGH OFFICIALS MAKE IT CLEAR THAT ARSENIC "HOT SPOTS" UNDER ASPHALT AND THE LIKE IS NOT DANGEROUS. IN THE CASE OF THE NEW SECTION OF TURF VALLEY, NO RESIDENTIAL DEVELOPMENT WILL BE PERMITTED UNTIL THE SITUATION IS REMEDIATED. OFFICIALS INDICATE LEGISLATION FOR MANDATORY GOLF COURSE TESTING IS BEING INTRODUCED. TO DATE, IT IS NOT YET CLEAR HOW AND IF THE ENVIRONMENTAL HAZARD WILL IMPACT THE REAL ESTATE MARKET IN TURF VALLEY. STAY TUNED!

IN THE NORTHWEST SECTION OF THE DISTRICT OF COLUMBIA, INCLUDING THE AMERICAN UNIVERSITY A FAIRLY WELL KNOWN SUPERFUND SITE EXISTS WITH CLEANUP STILL UNDERWAY. THIS EXPANSIVE AREA INCLUDES A RESIDENTIAL SECTION OF HOMES WITH PRICES RANGING FROM APPROXIMATELY \$1,000,000 TO \$4,000,000. THERE IS A CURRENT ACTIVE LISTING FOR \$9,500,000.

IN 1993 A CONTRACTOR WAS DIGGING A UTILITY TRENCH AND UNEARTHED A WORLD WAR I MUNITIONS IN THE SPRING VALLEY AREA. DURING FURTHER INVESTIGATIONS MUNITIONS WERE DISCOVERED IN PITS LOCATED IN THE SURROUNDING AREA INCLUDING THE AMERICAN UNIVERSITY, THE KOREAN AMBASSADORS PROPERTY AND ADJACENT RESIDENTIAL PROPERTIES. CLEAN UP FOR HIGH LEVELS OF ARSENIC, AMONGST OTHER THINGS, HAVE BEEN UNDERWAY SINCE THEIR DISCOVERY. THERE ARE, REPORTEDLY, 145 PROPERTIES WHICH STILL HAVE HIGH ARSENIC LEVELS REQUIRING CLEANUP AND WILL NEED REMEDIATION. OVER 1500 HAVE BEEN TESTED FOR ARSENIC TO DATE. ADDITIONAL SAMPLING IS UNDERWAY WITH 27 ADDITIONAL PROPERTIES ADDED TO THE SITE IN 2006 BASED UPON ADDITIONAL SAMPLING. IN ADDITION, IN LATE 2003, PERCHLORATE WAS DISCOVERED IN GROUNDWATER AT THE SITE. MONITORING WELLS WERE INSTALLED WITH A STUDY UNDERWAY.

SOME LENDERS HAVE CHOSEN TO LEND ONLY ON THOSE HOMES IN SPRING VALLEY FOR WHICH SITE REMEDIATION HAS BEEN COMPLETED. TO DATE, THERE CONTINUES TO BE A FAIRLY ACTIVE MARKET IN SPRING VALLEY. WITHIN THE LAST YEAR THERE WERE 41 SALES IN SPRING VALLEY WHICH RANGED FROM APPROXIMATELY \$750,000 TO \$3,500,000. THERE ARE CURRENTLY 8 ACTIVE LISTINGS RANGING FROM \$1,149,000 TO \$9,500,000 WITH ONE NOTED UNDER CONTRACT. THIS AREA NOTES A MORE ACTIVE MARKET DURING AND AFTER ELECTION YEARS DUE TO IS PROXIMITY TO THE CAPITAL AND GOVERNMENT OFFICES.

MISSISSIPPI {POST KATRINA}

THE RAND CORPORATION CONDUCTED A STUDY OF THREE GULF COUNTIES, GULFPORT, BILOXI AND PASCAGOULA AS THEY ARE LOCATED ON THE GULF AND VULNERABLE TO STORMS. KATRINA DAMAGED ABOUT 60% OF THE HOUSING UNITS IN THESE THREE COUNTIES. THEY REPORT THAT THE RECOVERY PROCESS IS SLOW BASED ON THE NUMBER OF PERMITS PULLED FOR NEW HOUSING UNITS. ONE BIG ISSUE IS THE LACK OF AFFORDABLE HOUSING AS THERE WAS A SIGNIFICANT LOSS OF THE RENTAL HOUSING MARKET, THERE WAS A 20% INCREASE IN RENTS, AND A SUBSTANTIAL DROP IN EMPLOYMENT. THE STUDY INDICATES THIS IS A KEY TO ANY RECOVERY AS NEW WORKERS TO HELP WITH THE RECOVERY WILL NOT HAVE A PLACE TO LIVE THAT IS AFFORDABLE DISCOURAGING THEM FROM COMING TO THE AREA TO HELP WITH THE RECOVERY PROCESS.

NORTH CAROLINA

- RALEIGH CONTINUES TO BE A STRONG MARKET FOR THE COUNTRY.
- WAKE COUNTY HAS AN AVERAGE LISTING PRICE OF \$252,985 WITH AN AVERAGE SALE PRICE OF \$249,862 OR A RATIO SALE PRICE/LISTING PRICE OF 98.76%

- THERE IS A 4.1 MONTH SUPPLY OF HOMES ON THE MARKET
- AVERAGE DAYS ON THE MARKET IS 71
- HISTORIC APPRECIATION FOR PAST 18 MONTHS IS 4.71%
- UNEMPLOYMENT IS 3.9%

- CARY MARKET STATISTICS ARE
 - 3.3 MONTH SUPPLY OF HOMES ON THE MARKET
 - 57 AVERAGE DAYS ON THE MARKET
 - AVERAGE SALES PRICE IN CARY IS \$323,776

- NORTH RALEIGH STATISTICS ARE:
 - 4.1 MONTH SUPPLY OF HOMES ON THE MARKET
 - 57 DAY MARKETING TIME
 - AVERAGE SALES PRICE IS \$275,570
 - DATA FROM REALTY TIMES MARKET CONDITIONS

- CHARLOTTE
 - SALES INCREASED FROM 496 TO 619 IN THE SECOND QUARTER OF 2007 FROM THE 1ST QUARTER OR AN INCREASE OF 25%.
 - CURRENT INVENTORY IS 3 MONTHS
 - THE AVERAGE SALES PRICE IS \$235,850.
 - AVERAGE DAYS ON MARKET IS 67
 - CONDOS HAVE AN AVERAGE SELLING PRICE OF \$186,988 WITH 75 DAYS ON MARKET

- MANY OF NORTH CAROLINA'S MARKETS CONTINUE TO SEE APPRECIATION BUT IT TENDS TO BE LESS THAN 7% A YEAR.

TEXAS

- **DALLAS COUNTY, TX**
 - AVERAGE SALES PRICE IS DOWN 2.5%
 - NUMBER OF HOMES ON THE MARKET IS UP 26%
 - 3.5 MONTH SUPPLY
 - AVERAGE DAYS ON THE MARKET IS 69
 - LIST TO SELL RATION IS 97%

- **DENTON COUNTY, TX**
 - AVERAGE SALES PRICE IS UP 3.3%
 - NUMBER OF HOMES ON THE MARKET IS UP 44%
 - AVERAGE DAYS ON THE MARKET IS 56

- **TARRANT COUNTY, TX**
 - AVERAGE SALES PRICE IS UP 1.2%
 - NUMBER OF HOMES ON THE MARKET IS UP 36%
 - AVERAGE DAYS ON THE MARKET IS 42
 - *BASED ON Q1 2007 vs. Q2 2007

- **HOUSTON MLS**

- AVERAGE PRICE IS DOWN 3.7%, \$212399 to \$220217
- NUMBER OF HOMES ON THE MARKET IS UP 18.6%
- TOTAL SALES ARE DOWN 8.4%
- 6.2 MONTH SUPPLY OF HOMES ON THE MARKET
- CONDO SALES ARE DOWN 18.5%
- * BASED ON Q2 2007 vs Q2 2006.

NORTHEAST

THE NORTHEAST REGION OVERALL CONTINUES TO SHOW SIGNS OF A SOFTER REAL ESTATE MARKET. IN ALL MARKET AREAS EXCEPT VERMONT, THE TREND IS STABLE TO DECLINING. VERMONT APPEARS GENERALLY STABLE. IN BROAD TERMS, THE LARGEST MARKETS SHOWS GENERALLY MORE DECLINING TRENDS INCLUDING MARKETS IN NEW YORK, MASSACHUSETTS, NEW JERSEY, PENNSYLVANIA, CONNECTICUT AND RHODE ISLAND. IN VIRTUALLY ALL AREAS THE TREND IS TOWARD INCREASED MARKETING TIMES, ANOTHER SIGN OF A GENERALLY SOFTER REAL ESTATE MARKET.

THE NATIONAL ASSOCIATION OF REALTORS INDICATED THAT THE AVAILABILITY OF FUNDS FOR BUYERS ALSO CONTINUES TO BE AN ISSUE. NAR MEMBERSHIP INDICATED THAT OVER 10% OF THE AUGUST 2007 CONTRACTS THAT FELL THROUGH LATER IN THE TRANSACTION WERE PRIMARILY DUE TO CANCELED LOAN COMMITMENTS. WHILE THIS TREND MAY NOT BE LONG LIVED, THE RESULT IS LIKELY TO BE THAT THE OVERALL QUALIFIED BUYER POOL IS REDUCED, WITH SOME OTHER BUYERS PUSHED TO LOWER PRICE POINTS BASED ON MORE STRINGENT QUALIFICATION PROCESSES.

THERE CONTINUES TO BE A SIGNIFICANT LEVEL OF DEBATE AND ACTIVITY FOCUSED ON AREA REAL ESTATE FORECLOSURE TRENDS, WITH MANY SOURCES PREDICTING AT LEAST ANOTHER 6 MONTHS TO 1 YEAR OF INCREASED FORECLOSURE ACTIVITY, SOME EVEN LONGER. AS VARYING LEGISLATIONS ARE PROPOSED OR MAKING THEIR WAY THROUGH POLITICAL PROCESSED, IT REMAINS TO BE SEEN WHETHER THERE IS MEANINGFUL RELIEF TO BORROWERS AND LENDERS. AN EXAMPLE INCLUDES THE HOUSE BILL PASSED THAT WOULD ALLOW SOME TAX RELIEF TO BORROWERS THAT CANCEL MORTGAGE ON THEIR PRIMARY RESIDENCES WHEN UNPAID DEBT THAT IS FORGIVEN. AS THE NORTHEAST AND MID-ATLANTIC MARKETS CONTINUE TO COOL, BORROWERS THAT ARE HEAVILY LEVERAGED FOR DEBT ARE INCREASINGLY FINDING THAT THEY CANNOT SELL WITHOUT TAKING A SIGNIFICANT LOSS. THE RESULT IS THAT THESE BORROWERS OFTEN CONTINUE TO MOVE THROUGH THE FORECLOSURE PROCESS AND THE PROPERTY MAY SEE FURTHER DETERIORATION AND DEFERRED MAINTENANCE. AS THE REGION ENTERS WHAT IS TRADITIONALLY THE SLOWEST SALES PERIOD DUE TO WINTER WEATHER, LENDERS MAY ALSO FIND THAT EXTRA ATTENTION TO VACANT OR POTENTIALLY VACANT PROPERTIES IS NEEDED TO ASSURE THEY ARE PROPERLY SECURED AND WINTERIZED BEFORE FREEZING TEMPERATURES BECOME AN ISSUE. THERE MAY ALSO BE SOME RISK OF SQUATTERS OR ILLEGAL ENTRY INTO VACANT PROPERTIES THAT ARE NOT ROUTINELY MONITORED.

FRAUD IN THE REGION IS STILL A CONCERN. WHILE CHANGES IN LENDING PRACTICES CONTINUE TO OCCUR, BRINGING MANY BORROWERS UNDER TIGHTER

SCRUTINY, OTHER AREAS OF POTENTIAL FRAUD ARE NOTED. ACCURATE REPRESENTATION OF THE CONDITION OF BOTH THE SUBJECT PROPERTY AS WELL AS THE GENERAL MARKET CONDITIONS IS INCREASINGLY IMPORTANT. AS MORE FORECLOSURE AND REO PROPERTIES ENTER THE MARKETPLACE, IT WILL BE IMPORTANT TO HAVE DETAILED AND COMPREHENSIVE INFORMATION ON THE SUBJECT PROPERTY CONDITION. IF PROPERTIES ARE BEING UPDATED AND RESOLD FOR PROFIT, THEN LENDERS MAY WANT TO REQUEST GREATER DETAIL ON THE UPDATES MADE AND ADDITIONAL SUPPORT IN THE MARKET AREA FOR THE RENOVATIONS AND REHAB WORK THAT IS COMPLETED. ADDITIONALLY, REPORTS PROVIDING DATED COMPARABLE DATA MAY NOT ACCURATELY REFLECT CURRENT MARKET CONDITIONS. THE INCLUSION OF LISTED PROPERTIES OR ADDITIONAL COMPARABLES MAY HELP OFFSET THE USE OF OLDER SALES IN MARKETS WHERE MORE RECENT DATA IS NOT UNIFORMLY AVAILABLE.

INTERNAL REVIEW OF THE HIGH RISK ORDERS REVIEWED BY FIS VALUATION SOLUTIONS INDICATES THAT THERE IS A SLIGHTLY DOWNWARD TREND IN HIGH RISK ORDERS FOR THE NORTHEAST REGION IN GENERAL. FIRST QUARTER 2007 HAD 16% OF THE HIGH RISK FILES IN THE NE REGION; 2ND QUARTER 2007 HAD 15.4% AND 3RD QUARTER 2007 HAD 15.3%. THE MIDWEST REGION SAW AN INCREASE OF 5.8% IN HIGH RISK FILES DURING THE SAME TIME PERIOD (FROM 20% OF THE HIGH RISK FILES TO 25.8%). THE SOUTHEAST SHOWED SOME INCREASE FROM 31.6% TO 33% AND THE WEST SHOWED A DECLINE 32.4% TO 26%. THE SOUTHEAST AND WEST ARE NOTED TO BE GENERALLY RUNNING AT AROUND TWICE AS MANY HIGH RISK ORDERS AS THE NORTHEAST AREAS OVERALL. THIS DOES NOT MEAN THAT ANY LESS DILIGENCE IS WARRANTED IN THE NE REGION. PENNSYLVANIA HAD THE HIGHEST PERCENTAGE, MOVING AHEAD OF NEW YORK, NEW JERSEY AND MASSACHUSETTS IN THE PERCENTAGE OF HIGH RISK FILES REVIEWED IN THE 3RD QUARTER DATA FOR THE REGION. THOSE 4 STATES (NEW YORK, PENNSYLVANIA, NEW JERSEY AND MASSACHUSETTS) CONSISTENTLY SHOWED THE HIGHEST NUMBERS OF HIGH RISK FILES IN THE REGION OVER THE PAST 3 QUARTERS

OVERALL, THE NORTHEASTERN MARKET AREA SHOWS SOME FLUCTUATIONS WITH THE BROADER TREND TOWARD DECLINE IN ALL STATES EXCEPT VERMONT, WHICH IS GENERALLY STABLE. THE DOWNWARD TREND IS NOT CURRENTLY SEVERE IN MOST MARKETS BUT IS PAIRED WITH SLOWING SALES, THE APPROACHING HISTORICALLY SLOWER WINTER MONTHS, AND CHANGES IN QUALIFYING PROCESSES THAT MAY REDUCE THE NUMBER OF AVAILABLE BUYERS. ADDITIONALLY, AS THE FORECLOSURE TREND SHOWS SIGNS OF INCREASING, THERE MAY BE ADDITIONAL COMPETITION AT LOWER PRICE POINTS. HOWEVER, NATIONALLY THE REGION APPEARS TO BE FARING BETTER THAN OTHER REGIONS AT THIS TIME.

WESTERN SAMPLER

ARIZONA

ALTHOUGH THE PHOENIX AREA (MARICOPA COUNTY) SAW JOB LOSSES AND A RISE IN UNEMPLOYMENT IN THE FIRST QUARTER THE AREA HAS EXPERIENCED JOB GROWTH IN THE FIRST TWO MONTHS OF THE SECOND QUARTER ADDING 11,740 JOBS. UNEMPLOYMENT RATE FELL 0.5% FROM THE FIRST QUARTER TO 3%. ACCORDING TO THE ARIZONA MULTIPLE LISTINGS SERVICE (ARMLS) THE AVERAGE HOME PRICE ROSE SLIGHTLY FROM THE FIRST QUARTER (\$350,600) TO THE SECOND QUARTER (\$355,400) WITH APPROXIMATELY THE SAME NUMBER OF HOMES ON THE MARKET IN BOTH QUARTERS.

NUMBER OF HOMES SOLD ROSE SLIGHTLY IN THE SECOND QUARTER WITH NUMBER OF NEW HOMES ALSO UP SLIGHTLY. THE AVERAGE MARKETING TIME FELL FROM 81 DAYS TO 77 DAYS IN THE SECOND QUARTER AND MOST HOMES SELLING WITHIN 3% TO 5% OF THE ASKING PRICE.

PINAL COUNTY (SOUTHEAST OF PHOENIX) APPEARS TO HAVE SIMILAR TRENDS AS MARICOPA COUNTY WITH JOBS ADDED AND A DROP IN THE UNEMPLOYMENT RATE. ALTHOUGH THE AVERAGE PRICE FOR A HOME FELL FROM THE FIRST QUARTER (\$233,600) TO THE SECOND QUARTER (\$215,700) THE NUMBER OF HOMES SOLD ROSE. THE NUMBER OF HOMES ON THE MARKET IS CONSISTENT WITH THE FIRST QUARTER AND AVERAGE MARKING TIME HAS REMAINED STABLE.

THE TUCSON ASSOCIATION OF REALTORS MULTIPLE LISTING SERVICE INDICATES THE AVERAGE SALES PRICE IS DOWN 1.73% FROM THE YEAR EARLIER AND THE MEDIAN PRICE IS DOWN 2.78% FROM THE PRIOR YEAR. THE NUMBER OF NEW LISTINGS ARE DOWN FROM THE PREVIOUS YEAR AND ARE SLOWLY DECREASING FROM THE BEGINNING OF THE SECOND QUARTER.

THE FORECAST IS FOR DELINQUENCIES AND FORECLOSURES TO CONTINUE WELL INTO 2008 PER LAWRENCE YUN (V.P. NAR RESEARCH). MR. YUN ALSO INDICATES THAT THE ADDITIONAL DECLINE IN HOMES SALES IS DUE PRIMARILY TO THE LACK OF CONFIDENCE. APARTMENT VACANCY RATES HAVE BEEN DECLINING AND RENTS RISING BY 4.5% IN THE SECOND QUARTER, WHICH IS THE HIGHEST INCREASE IN FIVE YEARS. HOME SALES ARE FORECASTED TO FALL IN 2007 (19%) WITH A SLIGHT RISE IN 2008 (1.5%). HOME PRICES WILL BE FLAT IN 2007 AND INCREASE IN 2008 (1%).

CALIFORNIA

BASED ON INFORMATION FROM THE CALIFORNIA ASSOCIATION OF REALTORS (C.A.R.) CALIFORNIA SAW THREE STRAIGHT MONTHS (APRIL THROUGH JUNE) OF SALES DECREASES (27.8%, 25% & 24.7%) FROM THE PREVIOUS YEAR. SALES FELL TO 366,530 IN THE SECOND QUARTER COMPARED TO 448,140 IN THE FIRST QUARTER OF 2007. HOWEVER, C.A.R. REPORTS THE MEDIAN PRICE OF HOMES INCREASED FROM THE PREVIOUS YEAR WITH THE UPPER END (ABOVE \$500,000), IN THE SAN FRANCISCO AND SOUTHERN CALIFORNIA AREAS, HAVING A BETTER SHOWING. THE MEDIAN PRICE DECREASED AMONG HOMES BELOW \$500,000 AND INCREASED FOR HOMES ABOVE \$500,000. A REPORT BY C.A.R. AND DATAQUICK INFORMATION SYSTEMS SHOWED 28% (105 OUT OF 375 CITIES AND AREAS) SHOWED AN INCREASE IN MEDIAN PRICES FROM THE PREVIOUS YEAR. THE

INCREASE COULD BE DUE TO THE COMPOSITION OF THE MARKET ACTIVITY. OVERALL THERE IS APPROXIMATELY A TEN MONTH SUPPLY OF HOMES FOR SALE (VERSUS 6.1 MONTHS THE PRIOR YEAR) WITH THE SAN FRANCISCO BAY AREA HAVING A LEANER INVENTORY. THE MEDIAN NUMBER OF DAYS ON THE MARKET WAS 51.7 IN JUNE COMPARED TO 45.3 A YEAR EARLIER PER THE C.A.R. REPORT.

DATAQUICK REPORTS THAT THE FORECLOSURE ACTIVITY CONTINUES TO RISE IN CALIFORNIA. THERE WERE 53,943 NOTICES OF DEFAULT (NODs) FILED IN THE SECOND QUARTER WHICH WAS UP 15.4% FROM THE FIRST QUARTER AND UP 158% FROM THE SECOND QUARTER OF 2006. THE NODs FILED WAS THE HIGHEST SINCE 54,045 WERE RECORDED IN THE FORTH QUARTER OF 1996 WITH THE PEAK BEING 61,541 IN THE FIRST QUARTER OF 1996. ON AVERAGE 34,172 NODs HAVE BEEN FILED PER QUARTER SINCE 1992, WHEN DATAQUICK BEGAN KEEPING STATISTICS. MAJORITY OF THE LOANS THAT WENT INTO DEFAULT WERE ORIGINATED BETWEEN JULY 2005 AND AUGUST 2006. THE DEFAULT NUMBER VARY BY REGION WITH RIVERSIDE, CONTRA COSTA, SACRAMENTO AND MOST CENTRAL VALLEY COUNTIES HAVING RECORD SECOND QUARTER NUMBERS. LOS ANGELES COUNTY, HOWEVER, WAS LESS THEN HALF OF THE FIRST QUARTER 1996 PEAK. DATAQUICK REPORTS 54.6% OF HOMEOWNERS IN DEFAULT EMERGE FROM FORECLOSURE COMPARED TO 88% THE PREVIOUS YEAR.

NOTICES OF DEFAULT
HOUSES AND CONDOS

COUNTY/REGION	2006Q2	2007Q2	%CHG
LOS ANGELES	4,586	10,393	126.6%
ORANGE	1,255	2,984	137.8%
SAN DIEGO	1,778	4,383	146.5%
RIVERSIDE	2,287	6,648	190.7%
SAN BERNARDINO	1,839	5,141	179.6%
VENTURA	452	1,059	134.3%
SoCAL*	12,271	30,828	151.2%
SAN FRANCISCO	127	257	102.4%
ALAMEDA	649	1,612	148.4%
CONTRA COSTA	725	2,316	219.4%
SANTA CLARA	530	1,275	140.6%
SAN MATEO	222	463	108.6%
MARIN	58	118	103.4%
SOLANO	350	1,065	204.3%
SONOMA	202	462	128.7%
NAPA	47	128	172.3%
BAY AREA	2,910	7,696	164.5%

SANTA CRUZ	73	155	112.3%
SANTA BARBARA	147	434	195.2%
SAN LUIS OBISPO	79	208	163.3%
MONTEREY	128	483	277.3%
COAST	427	1,280	199.8%
SACRAMENTO	1,352	3,840	184.0%
SAN JOAQUIN	604	1,983	228.3%
PLACER	276	627	127.2%
KERN	549	1,593	190.2%
FRESNO	590	1,380	133.9%
MADERA	92	215	133.7%
MERCED	214	642	200.0%
TULARE	258	428	65.9%
YOLO	77	232	201.3%
EL DORADO	86	222	158.1%
STANISLAUS	407	1,286	216.0%
KINGS	50	75	50.0%
SAN BENITO	33	122	269.7%
YUBA	45	171	280.0%
COLUSA	14	39	178.6%
SUTTER	56	109	94.6%
CENTRAL VALLEY	4,703	12,964	175.7%
MOUNTAINS*	155	328	111.6%
NORTH CALIF*	443	847	91.2%
STATEWIDE	20,909	53,943	158.0%

* INCLUDES
ADDITIONAL
COUNTIES

SOURCE: DATAQUICK INFORMATION SYSTEMS, WWW.DQNEWS.COM

TRUSTEES DEEDS RECORDED (17,408), ACTUAL LOSS OF A HOME TO FORECLOSURE, WAS THE HIGHEST RECORDED IN DATAQUICK'S STATISTICS SINCE 1988. DUE TO THE HIGH NUMBER OF NODS THE NUMBER OF HOMES LOST TO FORECLOSURE IS EXPECTED TO INCREASE IN THE SECOND HALF OF THE YEAR. THE HIGH FORECLOSURE LEVELS IN THE INLAND EMPIRE (RIVERSIDE & SAN BERNARDINO COUNTIES) AND CENTRAL VALLEY AREAS, WHICH WERE THE WORST HIT, MAY SEE PROPERTY VALUES DECLINE FURTHER.

NEVADA

LAS VEGAS

CLARK COUNTY (INCLUDES LAS VEGAS) HOME SALES DROPPED (41.8%) IN THE SECOND QUARTER VERSUS THE SAME PERIOD LAST YEAR. THE MEDIAN PRICE HAS ALSO DECLINED (2.3%) FROM THE PREVIOUS YEAR ACCORDING TO DATAQUICK. A TOTAL OF 4,476 NEW AND RESALE HOUSES AND CONDOS SOLD IN THE LAS VEGAS METRO AREA IN JUNE. THAT WAS DOWN A TAD FROM MAY AND DOWN 44.8% FROM 8,110 IN JUNE 2006. THE JUNE SALES TOTAL WAS THE LOWEST FOR ANY JUNE SINCE 1998, WHEN 4,059 SOLD. LAS VEGAS REGION SALES HAVE FALLEN ON A YEAR-OVER-YEAR BASIS FOR THE PAST 17 MONTHS. THE REGION'S MEDIAN SALE PRICE WENT NEGATIVE ON A YEAR-OVER-YEAR BASIS THIS YEAR IN MARCH, THEN WAS FLAT IN APRIL. THE MAY MEDIAN FELL 3.7%. THE SEVERITY OF THE ANNUAL SALES DROP OFF VARIED BY PRICE SEGMENT: JUNE SALES OF HOMES PRICED UNDER \$200,000 FELL 35.9 PERCENT FROM A YEAR AGO, WHILE SALES OF HOMES PRICED FROM \$300,000 TO \$600,000 DROPPED 53.7 PERCENT. SALES OF HOMES OVER \$800,000 FELL 30 PERCENT. SALES OF MULTI-MILLION-DOLLAR PROPERTIES SAW THE OPPOSITE TREND: PUBLIC RECORDS SHOW 23 HOMES SOLD WITH A PRICE OR LOAN OF AT LEAST \$2 MILLION IN JUNE, UP 15 PERCENT FROM 20 SUCH SALES A YEAR EARLIER PER DATAQUICK.

	# SALES			MEDIAN PRICE		
	JUN-06	JUN-07	%CHG	JUN-06	JUN-07	%CHG
RESALE HOUSES	3,573	2,054	-42.5%	\$312,250	\$302,660	-3.1%
RESALE CONDOS	863	479	-44.5%	\$197,000	\$189,000	-4.1%
NEW HOMES	3,674	1,943	-47.1%	\$332,113	\$322,990	-2.7%
ALL HOMES	8,110	4,476	-44.8%	\$311,100	\$300,900	-3.3%

SOURCE: DATAQUICK INFORMATION SYSTEMS, WWW.DQNEWS.COM

RENO

RENO AREA HAD A SIGNIFICANTLY LARGER AMOUNT OF INVENTORY VERSUS THE NUMBER OF HOMES SOLD DURING THE SECOND QUARTER. THE INVENTORY RANGED FROM 2,444 HOMES TO 2,740 HOMES VERSUS 220 HOMES TO 265 HOMES DURING THE SECOND QUARTER BASED ON INFORMATION FROM A REPORT BY O48 REALTY (BASED ON INFORMATION FROM NNRMLS). ALTHOUGH THE MEDIAN PRICE REMAINED CONSISTENT THE INVENTORY ROSE FROM 9.6 TO 11 MONTHS.

UTAH

AFTER YEARS OF INCREASES, HOME SALES ALONG THE WASATCH FRONT DECLINED SHARPLY IN THE 2ND AND 3RD QUARTERS OF 2007 WHEN COMPARED TO 2006. PRICES ALSO HAVE INCREASED AT A SLOWER PACE AS WELL. PER RECENT SALT LAKE BOARD OF REALTORS REPORT, HOME SALES IN THE 3RD QUARTER OF 2007 TOTAL 2712 UNITS, DOWN NEARLY 34% FROM THE SAME THREE MONTH PERIOD IN 2006. OTHER WASATCH FRONT COUNTIES SAW SIGNIFICANT DECLINES AS WELL: TOOELE COUNTY WAS DOWN 36.4%; UTAH COUNTY 33.9%; DAVIS COUNTY 24.3% AND WEBER COUNTY DOWN 22.4%. THESE DROPS ARE IN STARK CONTRAST TO STEADY INCREASES IN HOME SALES SINCE EARLY 2000'S.

SLOWER SALES HAVE LED TO SLOWER APPRECIATION, WHICH IS TILTING THE MARKET IN FAVOR OF BUYERS. MEDIAN SELLING PRICES, WHICH HAD BEEN INCREASING IN MANY AREAS ALONG THE WASATCH FRONT IN EXCESS OF 20% IN 2006 WHEN COMPARED TO 2005, ARE ALSO RISING AT LOWER RATES THIS YEAR. PRICE GAINS IN SALT LAKE COUNTY AND ITS NEIGHBORING COUNTIES NORTH AND SOUTH DID NOT TOP 10% IN THE THIRD QUARTER. SELLING PRICES IN SALT LAKE COUNTY WERE UP 5.4% IN THE THIRD QUARTER, TO \$253,000, COMPARED WITH THE SAME PERIOD IN 2006. PRICES IN DAVIS COUNTY WERE UP 9.7%, TO \$230,500, WITH UTAH COUNTY INCREASING 8.1% TO \$241,000.

THE DECLINE IN SALES AND PULLBACK IN APPRECIATION ARE CREATING ADJUSTMENTS FOR A NUMBER OF SELLERS. MANY ARE SEEING THEIR HOMES REMAIN ON THE MARKET BECAUSE OF THE REDUCED POOL OF BUYERS. REALTORS REPORT SELLERS OF HOMES PRICES ABOVE \$300,000 ARE HAVING THE TOUGHEST TIME.

UP UNTIL EARLY SUMMER, UTAH HAD BEEN ABLE TO AVOID THE DOWNTURN IN RESIDENTIAL REAL ESTATE THAT IS PLAGUING MUCH OF THE REST OF THE COUNTRY. THE STATE'S HOUSING MARKET HAD BENEFITED FROM UTAH'S ROBUST ECONOMY, STELLAR EMPLOYMENT GROWTH AND STEADY INFLOW OF NEW RESIDENTS FROM OTHER STATES. BUT NOW, UTAH'S REAL ESTATE MARKET, LIKE MANY OTHERS, IS BEING AFFECTED BY TIGHTER LENDING STANDARDS ESTABLISHED IN THE EARLY SUMMER IN THE WAKE OF THE SUBPRIME MARKET WOES. MANY LENDERS, RESPONDING TO AN INCREASE IN DEFAULTS OF RISKY LOANS MADE IN RECENT YEARS, ESPECIALLY TO SUBPRIME BORROWERS WITH LESS THAN GOOD CREDIT, ARE REQUIRING LARGER DOWN PAYMENTS AND MORE CASH RESERVES FROM BORROWERS. THE RESULTING TIGHTENING HAS SOMEWHAT REDUCED THE POOL OF AVAILABLE BUYERS.

ANOTHER SIGNIFICANT FACTOR IS THE RUN-UP IN PRICES ALONG THE WASATCH FRONT OVER THE PAST COUPLE OF YEARS. STRONG APPRECIATION HAS PUT HOMEOWNERSHIP OUT OF THE REACH OF MANY UTAH FAMILIES WHOSE INCOMES HAVEN'T KEPT PACE.

MOST ECONOMISTS FAMILIAR WITH UTAH BELIEVE THE STATE'S REAL ESTATE MARKET WILL NOT SEE THE HUGE DROPS IN SELLING PRICES OR SALES SEEN IN OTHER STATES SUCH AS NEVADA, ARIZONA AND FLORIDA GIVEN UTAH'S STRONG ECONOMY AND ITS ABILITY TO GENERATE NEW JOBS AND ATTRACT NEW RESIDENTS. LOCAL ECONOMIST, JEFF THREDGOLD, A CONSULTANT FOR ZIONS BANK IN SALT LAKE CITY RECENTLY REPORTED, "OUR HOUSING MARKET IS SLOWING DOWN BUT IT'S STILL SOLID", PREDICTING ONLY NOMINAL DECLINES IN PRICES AND ANNUAL APPRECIATION SLOWING DOWN TO SINGLE-DIGITS.

SOME HAVE MENTIONED RECENT FHA REFORMS WHICH ARE CURRENTLY BEING DEBATED IN CONGRESS COULD HELP THE REAL ESTATE MARKET IN COMING YEARS. THE MEASURE WOULD HELP MORE BUYERS QUALIFY FOR HOME LOANS BY REQUIRING LESS OF A DOWN PAYMENT FOR FHA INSURED LOANS AND BY STRETCHING PAYMENTS OVER 40 YEARS INSTEAD OF 30. IT WOULD ALSO HELP MORE BUYERS QUALIFY FOR LOANS IN OTHER WAYS.

IDAHO

JULY (2007) WAS THE 12TH CONSECUTIVE MONTH OF SLUMPING SINGLE-FAMILY HOME SALES IN ADA COUNTY WHICH COVERS MUCH THE TREASURE VALLEY (BOISE, MERIDIAN, CALDWELL AND NAMP). ADDITIONALLY, HOUSING SALES HAVE NOW FALLEN BELOW 2004 LEVELS. MANY LOCAL REAL ESTATE AGENTS HAVE CITED 2004 AS A TYPICAL SALES YEAR NOT 2005 AND THE FIRST HALF OF 2006, WHEN SALES AND PRICES SOARED. THE MARKET HAS A GLUT OF HOMES FOR SALE (REPORTED TO BE IN EXCESS OF 7800 IN AUGUST 2007), SO BUYERS LIKELY WILL CONTINUE TO TAKE THEIR TIME IN DECIDING WHAT HOUSE TO PURCHASE. AT THE SAME TIME, FORECLOSURES IN THE FIRST HALF OF 2007 ROSE 21% WHEN COMPARED TO THE SAME PERIOD IN THE PREVIOUS YEAR. MANY BUILDERS ARE OFFERING BONUSES OVER AN ABOVE THEIR NORMAL COMMISSIONS TO AGENTS WHO BRING IN QUALIFIED BUYERS. THEY ARE ALSO OFFERING VARIOUS UPGRADE INCENTIVES TO POTENTIAL BUYERS IN HOPES OF REDUCING THEIR OVERSUPPLIED INVENTORIES. WHERE AREA BUILDERS HAVE BEEN AVERAGING 200 TO 250 NEW HOME STARTS IN THE PAST FOUR YEARS, NEW CONSTRUCTION PERMITS SO FAR IN 2007 ARE DOWN BETWEEN 50% AND 80%. PRICE REMAINS A MAJOR CONSIDERATION FOR POTENTIAL HOMEBUYERS. THE MAJORITY OF HOME SALES REPORTED IN AUGUST 2007 FOR THE BOISE/MERIDIAN MARKET AREA WERE PRICED BELOW \$300,000. LOCAL EXPERTS AND AREA ECONOMISTS PREDICT THE HOUSING MARKET WILL CONTINUE TO BE SLUGGISH INTO 2008.

WASHINGTON

RECENTLY RELEASED FIGURES FROM THE NORTHWEST MLS INDICATE PRICES ARE STILL RISING IN THE GREATER PUGET SOUND MARKET AREA BUT INVENTORY LEVELS MAY HAVE PEAKED. SALES, THOUGH, ARE STILL SLUGGISH COMPARED TO YEAR-AGO VOLUMES. A TOTAL OF 12,385 LISTINGS WERE ADDED IN SEPTEMBER- THE FEWEST NUMBER SINCE FEBRUARY WHEN ONLY 11,333 LISTINGS WERE ADDED. WHEN ADDED TO THE EXISTING OFFERINGS, THERE ARE NEARLY 49,000

RESIDENTIAL PROPERTIES FOR SALE ACROSS 19 COUNTIES, UP NEARLY 33% OVER THE SAME PERIOD ONE YEAR AGO.

CONDOMINIUM INVENTORY IS APPROXIMATELY 62% LARGER THAN ONE YEAR AGO, THANKS IN PART TO THE ADDITION OF SEVERAL NEW PROJECTS COMING ON LINE AND SEATTLE AND SURROUNDING MARKETS. MLS ANALYSIS REPORTS THAT 3 OF EVERY 10 CONDOMINIUMS THAT WERE OFFERED FOR SALE IN SEPTEMBER 2007 WERE CLASSIFIED AS NEW CONSTRUCTION.

BUYER'S PRESENTLY HAVE MORE HOME CHOICES NOW THAT THEY HAVE HAD IN THE PAST FEW YEARS. THROUGH THE FIRST NINE MONTHS OF 2007, PENDING SALES ARE AT ABOUT 89% OF LAST YEAR'S VOLUME. MULTIPLE OFFERS, WHICH HAD BEEN A COMMON FACTOR IN THE PUGET SOUND MARKET, DO NOT APPEAR TO BE COMMON. STILL, PRICES FOR SINGLE FAMILY HOMES (EXCLUDING CONDOS) ARE UP 3.7% FROM A YEAR AGO.

CONDOMINIUM PRICE GAINS CONTINUED TO OUTPERFORM SINGLE FAMILY HOMES. AREA-WIDE, CONDO PRICES SURGED NEARLY 10% FROM A YEAR AGO. THE MEDIAN PRICE FOR CONDOMINIUM SALES IN KING COUNTY IN SEPTEMBER 2007 WAS \$299,900, AN INCREASE OF NEARLY 15% FROM YEAR-AGO FIGURES.

ALL INDICATIONS ARE THAT NOW IS A GOOD TIME FOR BUYERS TO NEGOTIATE FAVORABLE TERMS OF SALE- WHICH DOES NOT NECESSARILY MEAN PRICE REDUCTIONS. BUYERS MAY ASK TO HAVE CERTAIN PERSONAL PROPERTY INCLUDED IN THE PURCHASE AGREEMENT. CLOSING DATES THAT FAVOR THE BUYER AND A SELLER'S WILLINGNESS TO MAKE REPAIRS AS INDICATED BY INSPECTIONS ARE OTHER ITEMS WHICH MAY BE NEGOTIATED.

HOMES LOCATED IN/NEAR URBAN CENTERS AND EMPLOYMENT CENTERS WILL LIKELY CONTINUE TO BECOME MORE EXPENSIVE AS DEMAND OUTPACES SUPPLY ACCORDING TO SEVERAL LOCAL REAL ESTATE EXPERTS. AT THE SAME TIME, SELLERS WITH UNREASONABLY PRICED PROPERTIES OR WHO HAVE HOMES THAT ARE NOT PROPERLY PREPARED OR STAGED WILL LIKELY BE DISAPPOINTED. BUYERS IN THIS MARKET WILL NO LONGER PUT UP WITH PREVIEWING OVERPRICED PROPERTIES ACCORDING TO DANIEL KENNEDY, PRESIDENT OF THE SEATTLE-KING COUNTY ASSOCIATION OF REALTORS. "SELLER'S SHOULD HEED THEIR AGENT'S ADVICE WHEN THEY ARE COUNSELED TO DE-CLUTTER, CLEAN OR MAKE MINOR REPAIRS."

THOUGH SEATTLE STILL HAS ONE OF THE STRONGEST, IF NOT THE STRONGEST HOUSING MARKETS IN THE COUNTRY, PRICE GAINS SLOWED TO 9.6%, DOWN FROM 17.4% A YEAR EARLIER.

OREGON

ACCORDING TO RECENT REPORTS, THE PORTLAND REGION CURRENTLY IS FACING A GLUT OF AVAILABLE HOMES. THERE IS CURRENTLY A SIX-MONTH SUPPLY OF INVENTORY, WHICH IN TURN HAS TRANSLATED INTO THE LARGEST AMOUNT OF AVAILABLE HOMES THIS REGION HAS SEEN IN OVER THREE YEARS. WITH THIS IN MIND, THE PORTLAND REGION HAS TRULY BECOME A BUYER'S MARKET.

IN ORDER TO "STAY IN THE GAME" AND TO REDUCE INVENTORY, BUILDERS ARE SLASHING PRICES AND OFFERING INCENTIVES SUCH AS TRIPS AND GIFT CARDS, LEASING HOMES RATHER THAN SELLING THEM, AND CUTTING BACK ON BUILDING WITHOUT CONFIRMED BUYERS. MANY ARE ALSO SLOWING THE PACE OF FUTURE PROJECTS, INCLUDING A REGIONALLY SIGNIFICANT EFFORT TO URBANIZE PLEASANT VALLEY, PARTLY ANNEXED BY GRESHAM. THAT HIGH-PROFILE RURAL AREA, EXPECTED TO ABSORB PART OF THE REGION'S PREDICTED POPULATION GROWTH IN THE NEXT 20 YEARS, MIGHT NOT SEE ITS FIRST NEW HOME UNTIL 2010- AT LEAST A YEAR LATER THAN EXPECTED. THE MARKET SIMPLY WILL NOT SUPPORT MORE HOUSES THERE NOW.

THOUGH OREGON'S HOUSING MARKET REMAINS SOLID COMPARED WITH OTHER PARTS OF THE NATION, AND PORTLAND-AREA HOME VALUES CONTINUE TO APPRECIATE, SALES ARE NOTICEABLY DOWN. IN AUGUST, PENDING HOME SALES IN THE PORTLAND AREA DROPPED 18% COMPARED WITH THE SAME MONTH DURING 2006. BUILDERS AND REAL ESTATE PROFESSIONALS ATTRIBUTE THE SLOWDOWN TO A SURPLUS OF OVERPRICED HOMES ON THE MARKET AND GROWING PUBLIC UNCERTAINTY: UNCERTAINTY ABOUT THE TRUE VALUE OF THEIR HOMES AFTER YEARS OF APPRECIATION, AND UNCERTAINTY THAT THOSE HOMES WILL SELL QUICKLY IF THEY DECIDE TO TRADE UP. THE TIGHTENING OF CREDIT, RESULTING FROM A SUBPRIME LENDING CRISIS THAT HAS GRIPPED THE INDUSTRY THIS YEAR IS ANOTHER FACTOR.

PORTLAND, WHICH WAS ONE OF THE TOPPED RANKED MARKETS FOR APPRECIATION IN 2006, HAD PRICE GAINS OF 5.7%, DOWN FROM 21.4% IN MAY 2006.

COLORADO

THE DENVER METRO AREA HAS BEEN HARD-HIT BY FORECLOSURES, BUT THE REALITY OF THE SITUATION IS VASTLY DIFFERENT DEPENDING ON NEIGHBORHOODS. WHILE NUMEROUS RECENT REPORTS PAINT A RATHER BLEAK PICTURE OF RISING FORECLOSURES AND FLAT HOUSE PRICES, ANALYSIS OF LOCAL MLS DATA AND REPORTS BY AREA REAL ESTATE EXPERTS SHOWS SOME NEIGHBORHOODS ARE STRUGGLING WHILE OTHERS REMAIN UNTOUCHED. REPORTS SHOW THAT NEIGHBORHOODS WHERE THE AVERAGE HOME PRICE IS LESS THAN \$250,000 ARE TAKING THE WORST BEATING, WHILE HIGHER-PRICED COMMUNITIES REMAIN RELATIVELY UNSCATHED.

HOUSING VALUES METRO-AREA-WIDE DECREASED BY 1% IN THE FIRST SIX MONTHS OF 2007; 25% OF SALES IN THE REGION WERE A RESULT OF FORECLOSURE RELATED ACTIVITY. DURING THE FIRST HALF OF THE YEAR, THERE WERE 19,460 FORECLOSURES STARTED IN THE STATE VERSUS 28,435 IN ALL OF 2006, ACCORDING TO A RECENT REPORT FROM THE COLORADO DIVISION OF HOUSING. DESPITE THESE TRENDS, ACCORDING TO DATAQUICK INFORMATION SYSTEMS, SALES OF HOMES PRICED AT MORE THAN \$1,000,000 INCREASED 22% IN THE FIRST SIX MONTHS OF 2007. BUT SALES DECLINED- IN SOME CASES DRASTICALLY- IN NEARLY EVERY OTHER PRICE RANGE, ACCORDING TO DATAQUICK.

AT STAPLETON, WHERE THE AVERAGE HOME PRICE IS \$449,000, JUST 2% OF HOME SALES IN THE PAST YEAR WERE EITHER FORECLOSURES OR SHORT SALES, AND VALUES INCREASED BY 10%. BUT THE 4700 ACRE MASTER PLANNED STAPLETON COMMUNITY IS SURROUNDED BY NEIGHBORHOODS WHERE

FORECLOSURES ARE RAMPANT AND VALUES ARE DECLINING, INCLUDING MONTBELLO, NORTHEAST PARK HILL EAST COLFAX AND NORTHWEST AURORA. IN NORTHEAST PARK HILL, 58% OF HOUSES SOLD IN THE LAST YEAR WERE DISTRESSED. HOME VALUES IN THE NEIGHBORHOOD, WHERE THE AVERAGE SALES PRICE IS \$150,000, DECLINED 11%. ACCORDING TO THE 1990 CENSUS, APPROXIMATELY 24% OF THE RESIDENTS IN NORTHEAST PARK HILL LIVE IN POVERTY.

COLORADO STILL RANKS SECOND TO NEVADA IN FORECLOSURE RATES ACROSS THE COUNTRY.

THE JUNE 2007 OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT (OFHEO) REPORT OF METROPOLITAN STATISTICAL AREAS (MSA'S) INDICATED PRICE DECLINES IN THE FORT COLLINS-LOVELAND AND GREELEY MARKET AREAS, AND MOSTLY MODEST PRICE GAINS IN THE REMAINING MSA'S TRACKED BY OFHEO. THE EXCEPTION WAS GRAND JUNCTION, WHICH SAW A 14% PRICE INCREASE.

WHILE LISTINGS PER RECENT MLS REPORTS APPEAR TO HAVE REMAINED FAIRLY STABLE, SALES OF SINGLE-FAMILY AND CONDOMINIUM UNITS BEGAN TO DECLINE DURING THE 3RD QUARTER OF 2007 IN NEARLY EVERY MARKET AREA. WHEN COMPARED WITH THE 2ND QUARTER OF 2006, SALES VOLUMES AND AVERAGE SALES PRICES DECLINED IN 2ND QUARTER 2007 WHILE MARKETING TIMES INCREASED SLIGHTLY.

ON THE BRIGHT SIDE, METRO DENVER'S UNEMPLOYMENT RATE FELL TO 3.3% IN MAY, THE FOURTH CONSECUTIVE MONTHLY DROP AND THE LOWEST RATE SINCE MAY 2001. BETWEEN APRIL-MAY 2007, METRO DENVER EMPLOYMENT INCREASED BY 12,600 JOBS, A 1.9% YEAR-TO-DATE GAIN.

WHILE NEW HOME CONSTRUCTION LAGS BEHIND 2006 TOTALS BY APPROXIMATELY 28%, THAT SEGMENT OF THE MARKET IS BEGINNING TO SHOW SIGNS OF IMPROVING AS TOTAL RESIDENTIAL BUILDING PERMITS INCREASED NEARLY 52% THRU APRIL 2007.

THE FBI RECENTLY REMOVED COLORADO FROM ITS TOP 10 LIST OF MORTGAGE FRAUD STATES.

UNITED AIRLINES WILL BEGIN HIRING AND TRAINING NEW PILOTS FOR THE FIRST TIME IN SIX YEARS. THE AIRLINE PLANS TO ADD AS MANY AS 100 PILOTS BY YEAR-END DUE TO INCREASED INTERNATIONAL FLIGHTS OUT OF DENVER INTERNATIONAL AIRPORT.

THE COLORADO STATE LAND BOARD HAS APPROVED A DENVER-BASED LEND LEASE COMMUNITIES DEVELOPMENT AT THE FORMER LOWRY BOMBING AND GUNNERY RANGE. THE 3800 ACRE FIRST PHASE WILL INCLUDE 13,000 RESIDENTIAL UNITS ALONG WITH COMMERCIAL SPACE, OPEN SPACE, TRAILS AND A REGIONAL RETAIL CENTER.

CHARTS, TABLES AND GRAPHS

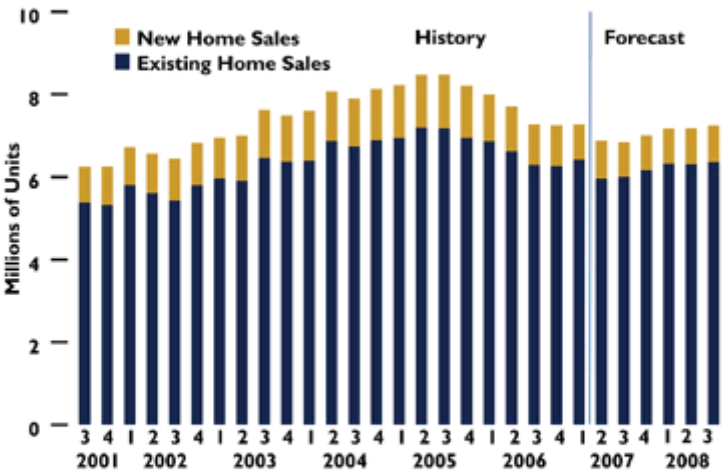
Top 10 Hottest Housing Markets in the United States

<http://www.therealestatebloggers.com/2007/11/12/top-10-hottest-housing-markets-in-the-united-states/>

1. **Salt Lake City, Utah**
 - Median Home Price: \$233,100
 - One-Year Increase: 21.9%
2. **Binghamton, N.Y.**
 - Median Home Price: \$111,200
 - One-Year Increase: 19.8%
3. **Salem, Ore.**
 - Median Home Price: \$227,900
 - One-Year Increase: 16.7%
4. **Farmington, N.M.**
 - Median Home Price: 201,900
 - One-Year Increase: 14.0%
5. **Allentown-Bethlehem-Easton, Pa.-N.J.**
 - Median Home Price: \$274,500
 - One-Year Increase: 12.8%
6. **Beaumont-Port Arthur, Texas**
 - Median Home Price: \$127,700
 - One-Year Increase: 11.8%
7. **Reading, Pa.**
 - Median Home Price: \$157,800
 - One-Year Increase: 11.2%
8. **Glens Falls, N.Y.**
 - Median Home Price: \$175,700
 - One-Year Increase: 10.7%
9. **Spokane, Wash.**
 - Median Home Price: \$197,700
 - One-Year Increase: 10.4%
10. **Cumberland, Md.-W.Va.**
 - Median Home Price: \$109,300
 - One-Year Increase: 9.3%

NAR CHARTS

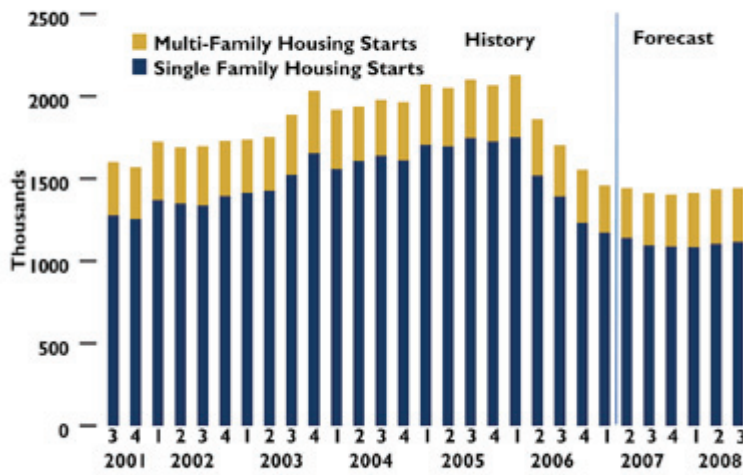
Home Sales
Soft, but slowly turning upward



Sources: NAR, Bureau of the Census, NAR Forecast

Housing Starts

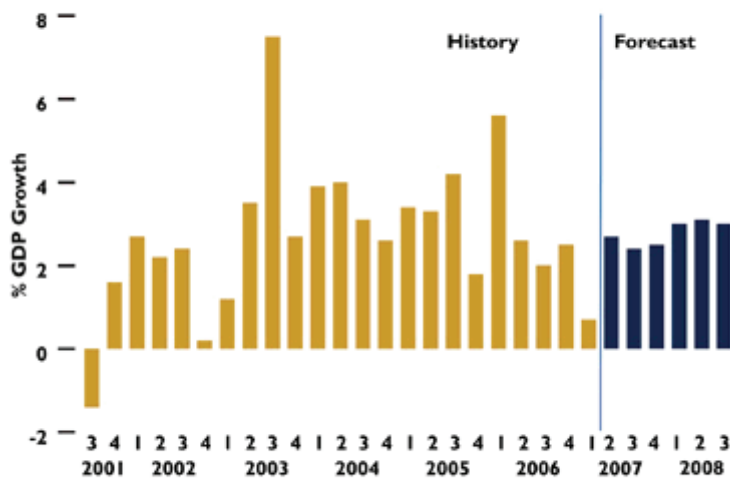
The "building boom" is over for a while



Sources: Bureau of the Census, NAR Forecast

Economic Growth

Gaining ground through 2007 and 2008



Sources: Bureau of Economic Analysis, NAR Forecast

GOOD LUCK IN 2008

IT WILL UNDOUBTEDLY BE A TIME THAT REQUIRES ALL OF OUR BEST, BUT WITH STEADFAST TENACITY WE WILL GET THROUGH AND, JUST LIKE THE SIGH OF RELIEF ONE BREATHE AFTER THAT FIRST MIND NUMBING ROLLER COASTER DROP, SEE A TIME OF RENEWED PROSPERITY.

