ECONOMIC, HOUSING & MORTGAGE MARKET OUTLOOK

Republic Mortgage Insurance Company **Chief Economist's Commentary • Fall 2007**

Tough 18 Months Ahead: Time Trends & Geographic Distributions of Home Price Risk and Subprime/Alt-A Mortgages Scheduled for Rate Reset

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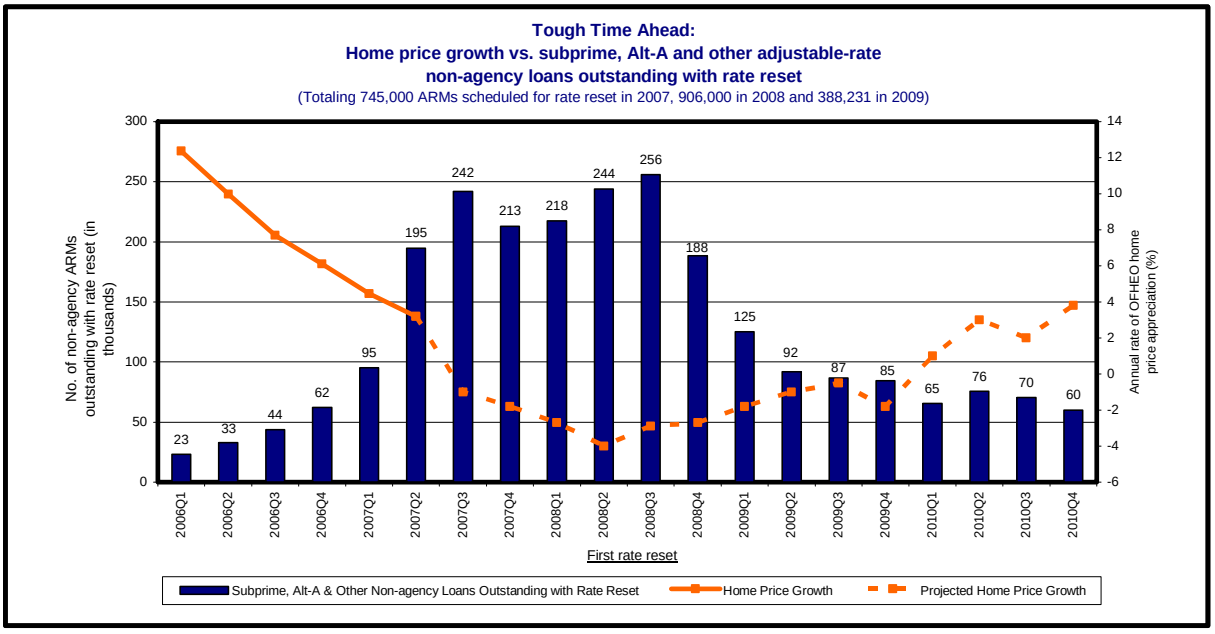
Welcome to the first edition of RMIC's Chief Economist Commentary. Our goal is to provide you, our customer, with leading edge market information along with our own insight and analysis.

This issue of the Commentary addresses five questions:

- **When will home prices hit bottom and begin recovery in the U.S.?**
- **Which markets will decline or appreciate in the next four quarters?**
- **When will subprime, Alt-A and other non-agency loans scheduled to reset to higher mortgage rates peak and fade in the U.S.?**
- **Which markets have the highest concentration of subprime loans and the most loans scheduled to reset to higher interest rates during 2007-2009?**
- **Which markets have the greatest concentration of the riskiest subprime loans?**



When will home prices hit bottom and begin recovery in the U.S.?

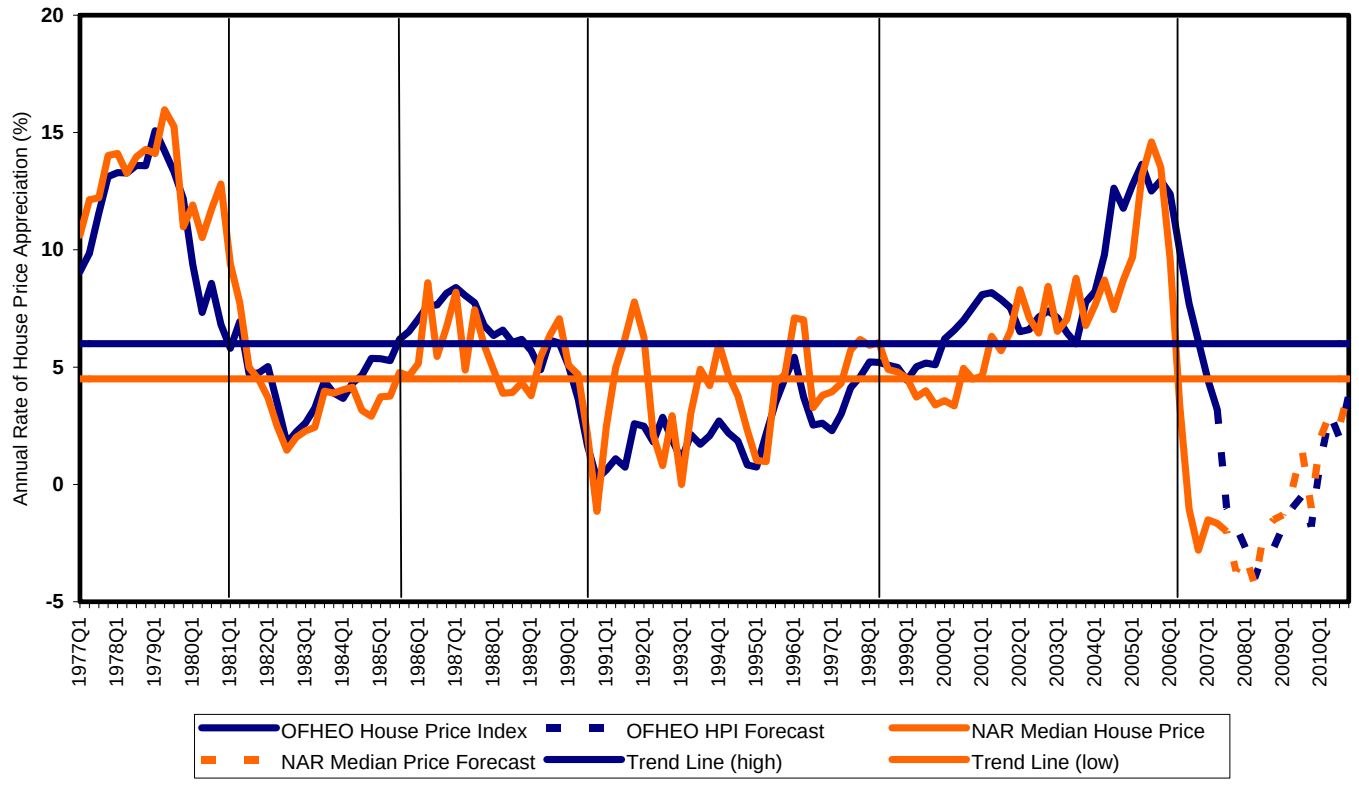
THE HOME PRICE TREND in the United States is shown in Figure 1, demonstrating the cyclic nature of house price changes over time. U.S. home prices have been moving either above or below the trend line in roughly 5-7 year cycles, with the last boom peaking in late 2005 and early 2006. The current cycle of housing downturn started in the 2nd quarter of 2006 and is projected to last about 5 to 6 years in the absence of a recession. Specifically, home price growth in the U.S. is projected to drop below zero in 2007 and reach bottom in the 2nd or 3rd quarter of 2008, with an annual growth rate of near -3% in 2008. Afterwards, however, a quick turnaround in home price growth is not projected. Instead, home prices are expected to remain sluggish and stabilize gradually in late 2008 and 2009. By 2010, the recovery of home price growth toward its trend line is expected to begin at a pace of about 2-3% initially.

These projections assume the current dramatic housing price movement is driven primarily by housing market fundamentals such as income growth, household formation, overbuilding, mortgage financing (subprime, interest rate, underwriting policy changes, etc.), the credit crunch, rising foreclosures and home inventories, and other factors affecting supply-demand balance. In the case of such external shocks as a recession, terrorist attack, war or a sustained oil price spike, the current trend of housing downturn will surely suffer from even more volatility and further declines in prices and require a few more quarters to hit bottom and begin recovery.

In any case, we expect the current down cycle to be unprecedented in many ways. We expect it to be the one with the sharpest drop in home price, the most widespread geographic distribution of price decline, the most foreclosures, and the most influence on regulatory, industry and market structures related to housing and mortgage finance since the Great Depression.

FIGURE 1

US home price moves by cycle, with last boom cycle peak in late 2005. Current down cycle started in 06Q2, projected to be below zero in 07, reach bottom in 08Q2/Q3 (-3%), stabilize in 2009 (-1%), and begin recovery towards trend line by 2010 (2-3%).



Which markets will decline or appreciate in the next four quarters?

GEOGRAPHIC DISTRIBUTION OF HOME PRICE RISK by state is shown in Table 1 and illustrated in the map and Figure 2. They indicate that both current conditions and projected market trends of house price movement vary substantially across the 50 states and the District of Columbia.

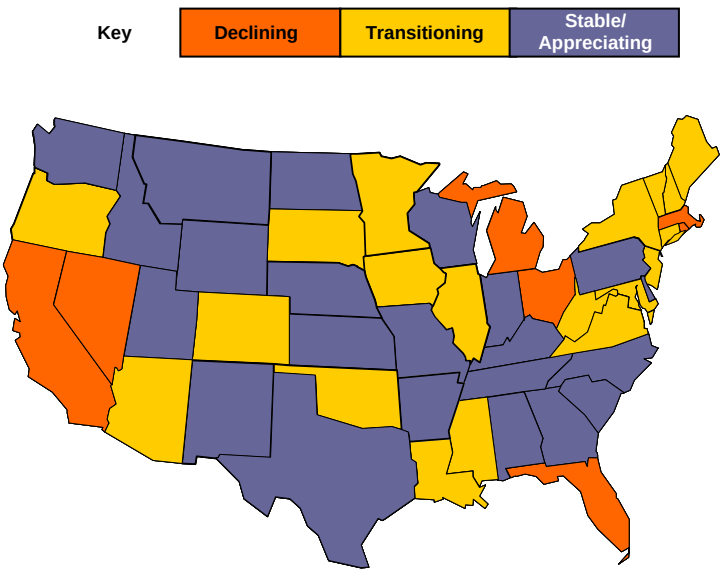
Currently, about 10 states are in decline, 18 states are in transition and 23 states are stable or appreciating. Going forward, as shown in the map, at least seven states (in orange) are projected to continue to be declining markets, while 24 states (in blue) are projected to be stable/appreciating and 20 states (in yellow) are projected to be transitioning toward either a declining or stable market. These market trend projections are developed on the basis of serial correlation, using multiple home price indicators that are predictive of short-term future market direction for up to four quarters. The explanations of the methodology and terminology used in these analyses are included in Appendix 1.

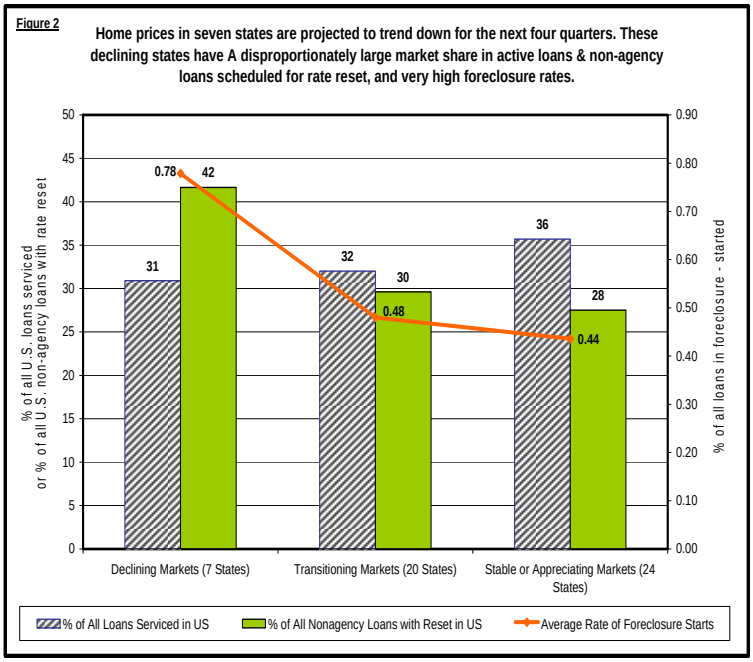
Home prices in seven states are projected to continue trending down over the next few quarters. These states are California, Michigan, Rhode Island, Nevada, Florida, Massachusetts and Ohio. Although a small number, these declining markets account for a disproportionately large market share of mortgages serviced (31%) and a large share of U.S. adjustable rate non-agency loans scheduled for their first rate reset in 2007-2009 (42%).

Moreover, these seven projected declining markets have a very high average rate of loans in foreclosure started recently (0.78%), compared to the transitioning markets (0.48%) and stable/appreciating markets (0.44%). Therefore, we also expect to see that, driven by further declines in property values and a rising number of adjustable rate mortgages (ARMs) scheduled for rate reset soon (as discussed next), loan foreclosure in these states will at least continue its current pace of start rate of 0.78%, and likely rise in the coming quarters.

These market classifications should be viewed cautiously. Given the substantial uncertainties and risk factors inherently associated with housing market dynamics, it is likely that some of the declining markets may reach the turning point earlier than projected. A good example is Massachusetts, which was one of the first states to start declining in 2006 and might well become one of the first states to start price stabilization. On the other hand, although some transitioning markets, such as New Jersey, are not projected as definitely declining markets at this point, there are market signs indicating that they may begin declining soon.

Data used in the market trend projections and analyses of current status are the seasonally adjusted purchase-only single family House Price Index compiled by the U.S. Office of Federal Housing Enterprise Oversight (OFHEO). The seasonality adjustments are made by the RMIC Modeling and Research Group.





When will subprime, Alt-A and other non-agency loans scheduled to reset to higher rates peak and fade in the U.S.?

TIME TRENDS ON SUBPRIME RISK are largely associated with the ARMs that will reset to higher interest rates in the coming quarters. Table 2 and Figures 3-4 provide a five-year mortgage rate reset schedule (2006Q1-2010Q4) for subprime, Alt-A and other loans that are securitized by non-agency institutions and are outstanding as of May 2007, by counts and aggregate loan amounts, respectively.

They show that there was an explosion of subprime, Alt-A and other non-agency loans that were outstanding and scheduled to reset to higher interest rates in the 2nd quarter of 2007. In the following several quarters, they will keep climbing, eventually peaking in the 3rd quarter of 2008, and begin fading in the 1st quarter of 2009. This time trend is consistent for measures of both counts and aggregate loan amounts.

By counts, such loans total 2 million for 2007-2009, including 745,000 in 2007, 906,000 in 2008 and 388,231 in 2009. The aggregate amount of such loans is $481.1 billion, including $157.9 billion in 2007, $209.7 billion in 2008 and $113.5 billion in 2009.

Subprime is defined as loans to borrowers with FICO scores less than 620. Alt-A loans are those with FICO scores greater than 620 and with reduced (no or low) documentation in their loan applications. The analysis is conducted using ABS and MBS databases acquired from First American Loan Performance, which cover about 80% of all non-agency loans (subprime, Alt-A, jumbo, etc.) securitized in the U.S.

FIGURE 3

Subprime, Alt-A and other non-agency loans outstanding with rate reset exploded in 2007Q2. They will keep climbing, peak in 2008Q3, and fade away after 2009Q1.

(Totaling 745,000 in 2007, 906,000 in 2008 and 388,231 in 2009)

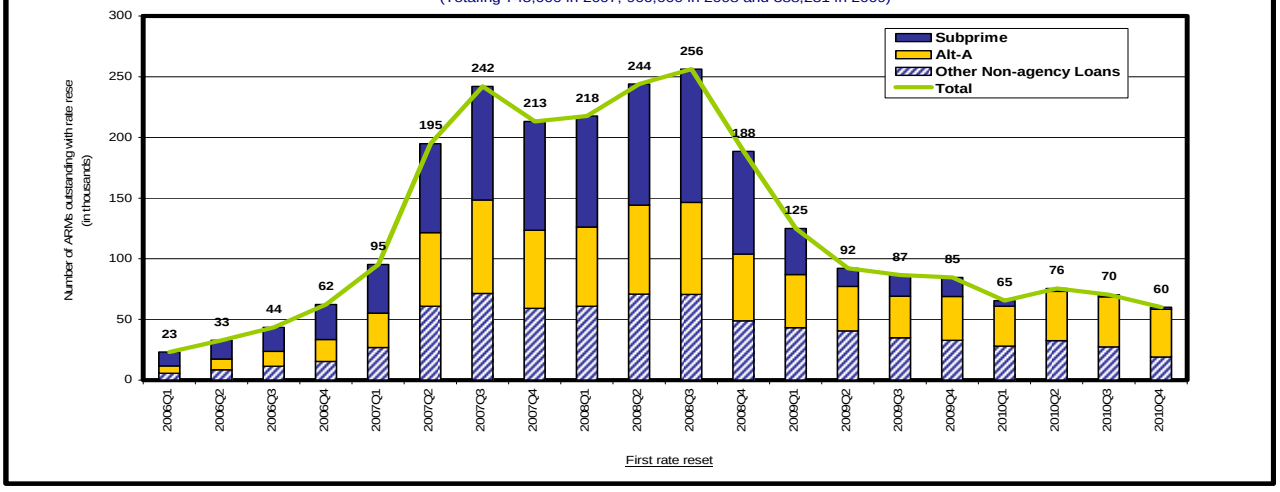
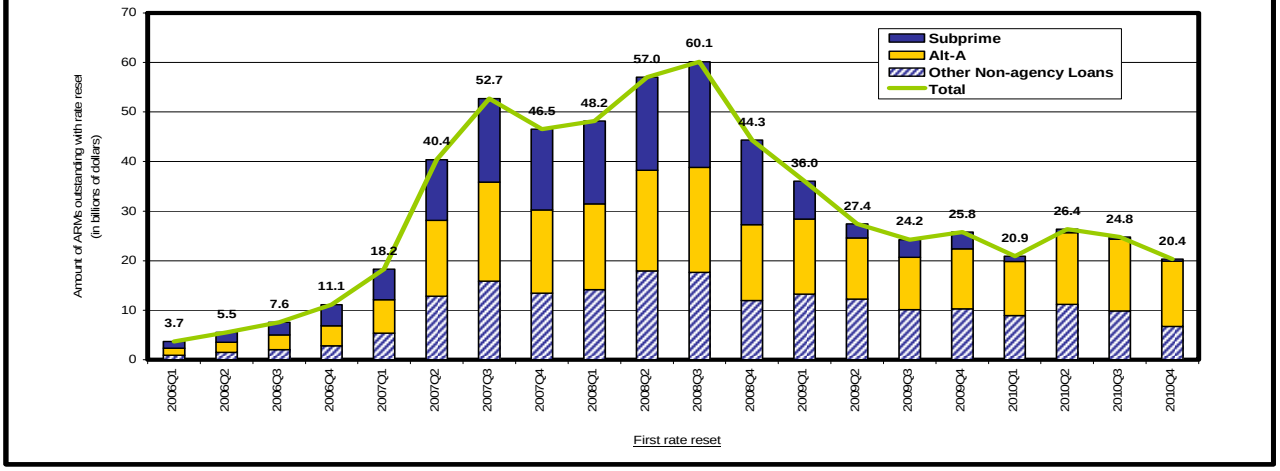


FIGURE 4

The total amount of subprime, Alt-A and other non-agency loans outstanding that are scheduled to reset during 2007Q1-2009Q4 is $481.1 Billions.

It begins with $157.9B in 2007, will reach the height of $209.7B in 2008, and fade away at $113.5B in 2009.



Which markets have the highest concentration of subprime loans and the most loans scheduled to reset to higher interest rates in 2007-2009?

GEOGRAPHIC CONCENTRATION OF SUBPRIME mortgages and non-agency loans scheduled to reset their mortgage rates in 2007 through 2009 are documented in Table 3. As shown in Figure 5, most states with subprime loan concentrations also had higher foreclosure start rates in the second quarter of 2007. The subprime concentration refers to subprime loans as a percentage of all loans serviced in the same state.

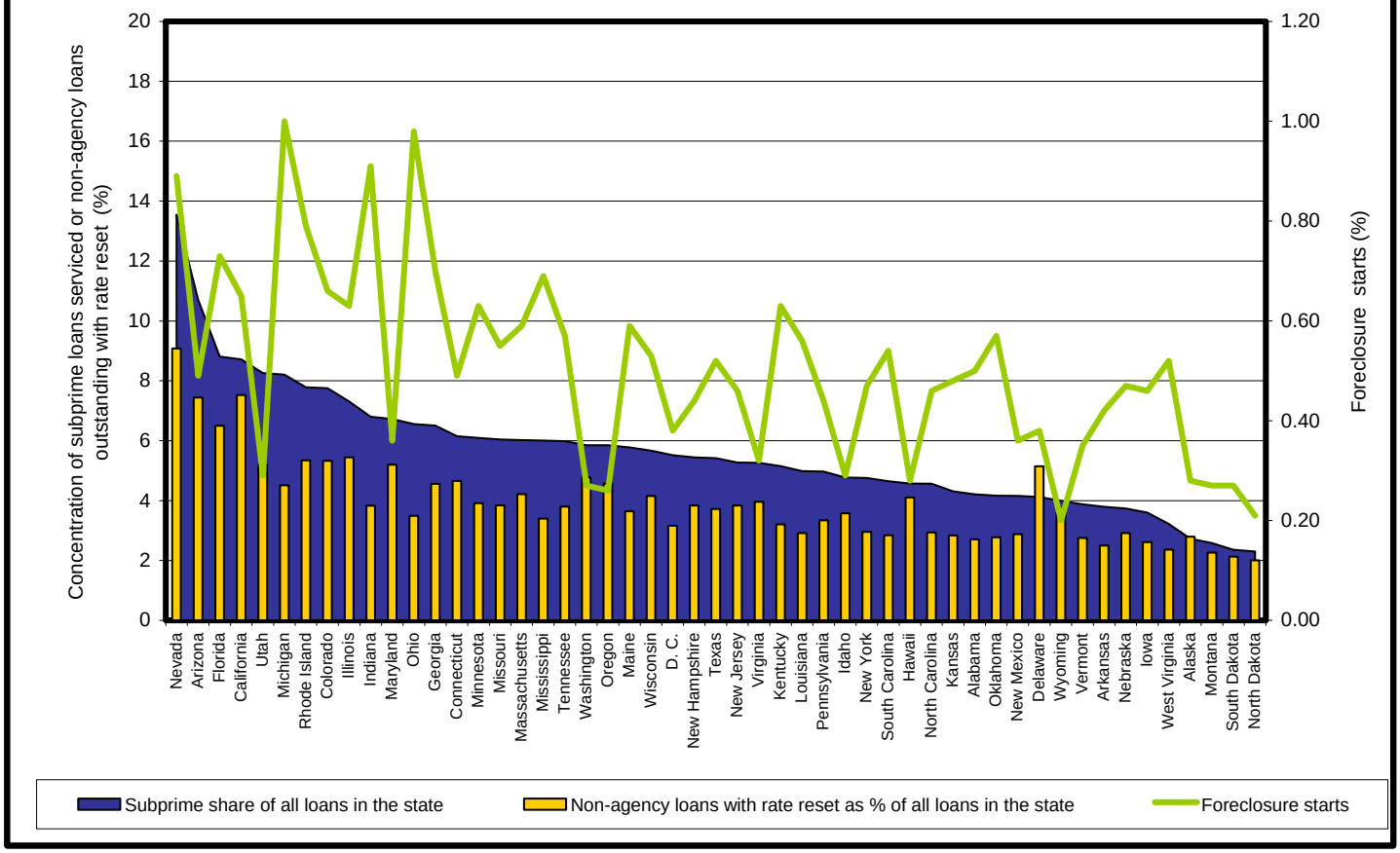
Similarly, rates of foreclosure starts are generally higher in states with a higher concentration of non-agency loans with impending rate resets. The rate reset concentration is calculated as loans securitized by non-agency institutions (subprime, Alt-A, jumbo, etc.), outstanding as of May 2007, and scheduled to reset to higher interest rates between 2007 and 2009, divided by the total loans serviced in the same state.

By combining all three categories (foreclosure rates, subprime concentrations and rate reset concentrations), the 15 top ranked states are Nevada, Arizona, Florida, California, Utah, Michigan, Rhode Island, Colorado, Illinois, Indiana, Maryland, Ohio, Georgia, Connecticut, and Minnesota. Note that Utah and Maryland are somewhat exceptional in that they had relatively modest rates of foreclosure starts but a high concentration of subprime mortgages and non-agency loans scheduled for interest rate reset.

Because subprime and other ARMs with scheduled rate resets won't peak and fade until about 4-6 quarters from now (as discussed earlier), rates of foreclosure starts are expected to stay high, and likely rise in these top 15 states in the quarters to come.

FIGURE 5

Rates of foreclosure starts are generally higher in states where concentrations of subprime loans and non-agency loans outstanding with rate reset are highest.

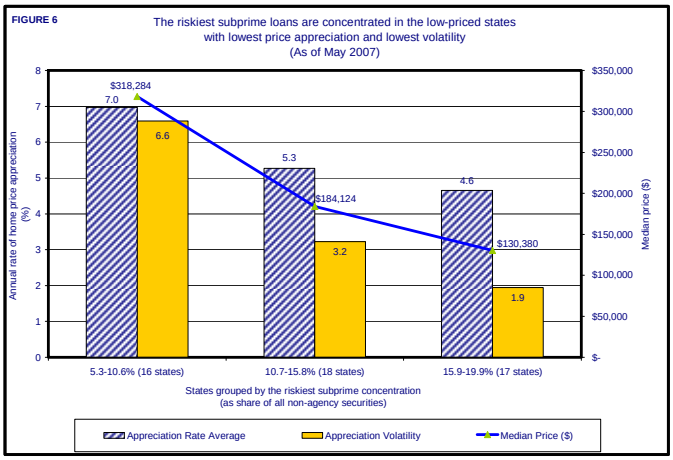


Which markets have the greatest concentration of the riskiest subprime loans?

THE RISKIEST SUBPRIME LOAN CONCENTRATION by state is shown in Table 4 and Figures 6-7. The riskiest subprime loans are defined as non-agency securities outstanding with (a) borrowers' credit scores less than 620, (b) originations from January 2005 to May 2007 (i.e., around the height of the last housing boom and thus unlikely to have built much home equity), and (c) scheduled rate resets from 2007 to 2009 when home prices are projected to be weakening and sluggish. Their geographic concentration is simply measured as a percent of all non-agency loans originated in the same state and during the same time period (1/05-5/07).

What are the key features of the states with high concentrations of the riskiest subprime mortgages? Figures 6-7 indicate that the riskiest subprime mortgages are concentrated in states that have the lowest annual rates of price appreciation and lowest volatility in home price movement. For instance, the 17 states with the highest concentration of the riskiest subprime loans are the markets appreciating typically at only 4.5% a year on average, with a volatility of 1.9%. In contrast, the 16 states with the lowest concentration of the riskiest subprime loans have had an average home price growth rate of 7% a year, with a volatility of 6.6%.

Moreover, the riskiest subprime concentration is nearly perfectly associated with the home price level and affordability index, indicating that the riskiest subprime loans are largely concentrated in the most affordable and low-priced states. On average, the median price is only about $130,380 in these 17 states. These states include Nebraska, Mississippi, Iowa, North Dakota, Indiana, South Dakota, Oklahoma, Louisiana, Kentucky, Arkansas, Alabama, and others.



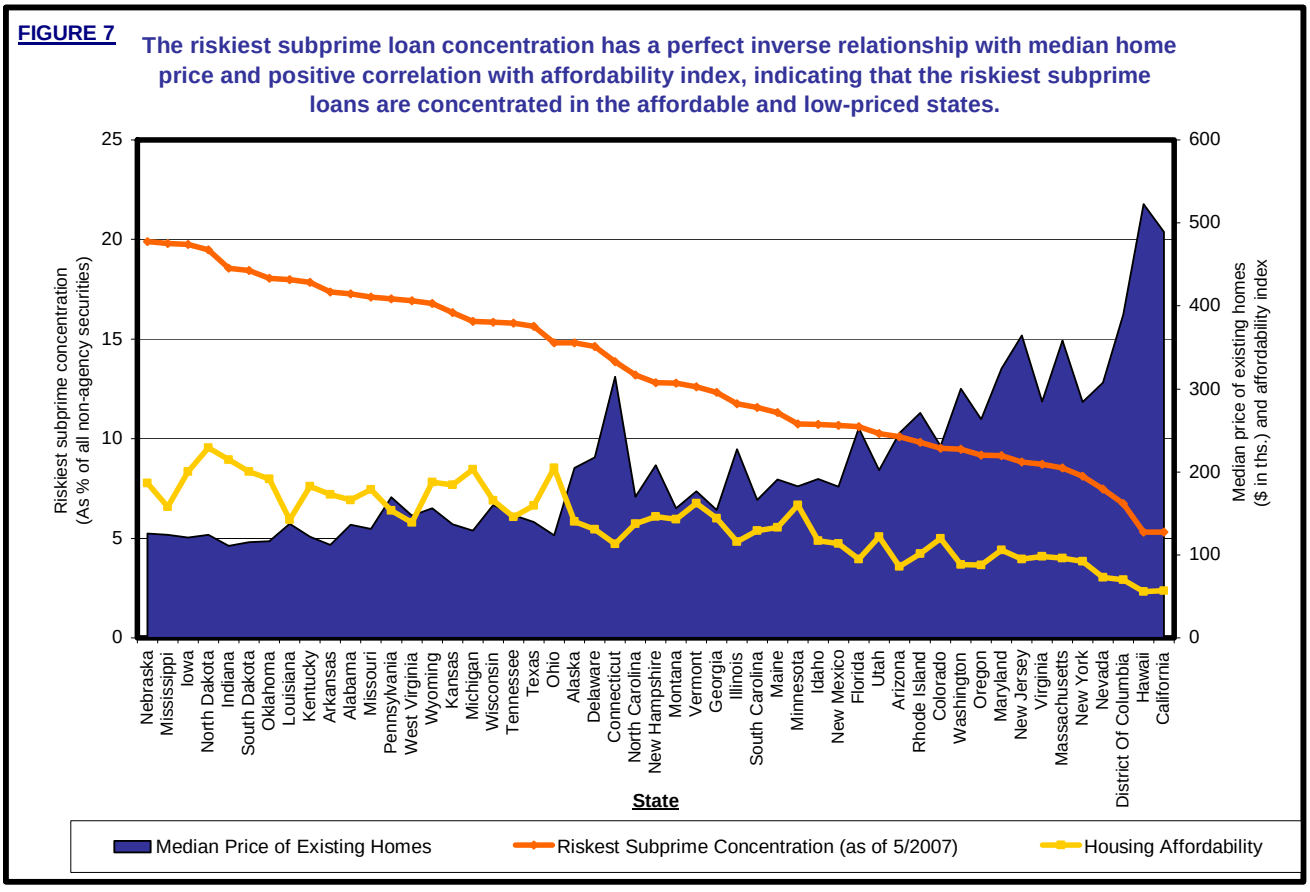


TABLE 1

TRENDS AND CURRENT STATUS ON HOUSE PRICE MOVEMENT BY STATE

2nd Quarter of 2007 • Single Family Homes

STATE	Market Trend Projection		Current Status		Rate of House Price Appreciation (Seasonally Adjusted, %)*					
	Grade	Classification	Grade	Classification	2007Q2	Annual Rate (06Q2-07Q2)	2007Q1	Q2 Average (1991-2007)	2006Q2	2005Q2
California	1	Declining	1	Declining	-2.1	-4.5	-0.7	1.4	0.6	4.8
Michigan	1	Declining	1	Declining	-1.5	-5.6	-1.6	1.0	-0.2	0.7
Rhode Island	1	Declining	1	Declining	-1.3	-4.3	-0.4	1.2	2.7	0.1
Nevada	1	Declining	1	Declining	-0.9	-3.7	-0.9	1.4	0.2	4.9
Florida	1	Declining	1	Declining	-0.6	-0.3	-0.5	1.7	1.5	6.8
Massachusetts	1	Declining	1	Declining	-0.1	-2.3	-0.6	1.2	-1.8	1.8
Ohio	1	Declining	1	Declining	-0.1	-1.0	-0.3	0.8	0.7	0.7
New Jersey	2	Transitioning	1	Declining	-1.0	-0.4	0.7	1.4	1.0	3.2
Minnesota	2	Transitioning	1	Declining	-0.4	-0.1	0.4	1.4	0.7	1.5
New Hampshire	2	Transitioning	1	Declining	-0.4	-1.0	0.7	1.4	0.6	1.5
District Of Columbia	2	Transitioning	2	Transitioning	-0.9	7.6	5.5	2.5	1.6	8.6
Connecticut	2	Transitioning	2	Transitioning	-0.7	0.2	0.4	0.9	0.4	2.7
South Dakota	2	Transitioning	2	Transitioning	-0.7	3.7	1.4	1.5	1.9	2.6
Illinois	2	Transitioning	2	Transitioning	-0.5	2.3	1.6	1.1	1.4	2.1
Oklahoma	2	Transitioning	2	Transitioning	-0.5	3.7	2.3	0.9	1.7	2.0
Arizona	2	Transitioning	2	Transitioning	-0.3	1.2	0.4	1.8	1.5	9.5
Vermont	2	Transitioning	2	Transitioning	-0.1	3.6	0.9	1.3	2.1	3.7
Maryland	2	Transitioning	2	Transitioning	0.2	2.3	0.9	1.3	1.3	5.3
Virginia	2	Transitioning	2	Transitioning	0.2	2.3	0.8	1.3	2.0	4.0
Iowa	2	Transitioning	2	Transitioning	0.3	2.0	0.4	1.2	1.4	2.7
West Virginia	2	Transitioning	2	Transitioning	0.3	3.5	1.5	0.9	1.5	3.8
Mississippi	2	Transitioning	2	Transitioning	0.5	5.5	1.3	1.0	3.4	1.3
New York	2	Transitioning	2	Transitioning	0.5	1.9	0.7	1.1	1.1	1.4
Colorado	2	Transitioning	2	Transitioning	0.8	1.9	0.0	1.5	1.3	0.6
Louisiana	2	Transitioning	2	Transitioning	0.9	5.7	0.9	1.4	2.2	2.3
Maine	2	Transitioning	2	Transitioning	1.1	2.2	0.0	1.5	-0.2	2.2
Oregon	2	Transitioning	2	Transitioning	1.1	7.2	3.0	1.9	3.7	4.5
Wisconsin	3	Stable or Appreciating	2	Transitioning	0.8	1.5	0.1	1.4	0.7	2.5
Indiana	3	Stable or Appreciating	3	Stable or Appreciating	0.6	1.5	0.6	0.7	1.0	1.2
Kentucky	3	Stable or Appreciating	3	Stable or Appreciating	0.9	2.3	0.5	1.0	1.0	1.2
Missouri	3	Stable or Appreciating	3	Stable or Appreciating	0.9	2.6	0.5	1.1	0.8	2.4
South Carolina	3	Stable or Appreciating	3	Stable or Appreciating	0.9	4.6	1.6	1.2	3.6	1.9
Nebraska	3	Stable or Appreciating	3	Stable or Appreciating	1.0	1.7	0.6	1.0	1.0	0.5
North Carolina	3	Stable or Appreciating	3	Stable or Appreciating	1.0	6.3	1.6	1.2	2.4	1.6
Pennsylvania	3	Stable or Appreciating	3	Stable or Appreciating	1.0	4.0	1.3	1.1	1.6	3.3
Delaware	3	Stable or Appreciating	3	Stable or Appreciating	1.2	3.3	0.2	1.4	0.9	4.2
Alabama	3	Stable or Appreciating	3	Stable or Appreciating	1.3	5.1	1.1	1.0	2.4	1.5
Georgia	3	Stable or Appreciating	3	Stable or Appreciating	1.3	3.5	1.1	0.9	1.8	1.6
Texas	3	Stable or Appreciating	3	Stable or Appreciating	1.3	6.4	1.2	0.9	1.7	1.6
Alaska	3	Stable or Appreciating	3	Stable or Appreciating	1.4	4.3	2.5	1.2	2.5	2.6
Idaho	3	Stable or Appreciating	3	Stable or Appreciating	1.4	7.0	1.5	1.4	4.7	1.6
Kansas	3	Stable or Appreciating	3	Stable or Appreciating	1.4	3.9	0.1	1.1	0.7	1.0
Washington	3	Stable or Appreciating	3	Stable or Appreciating	1.5	8.1	1.7	1.6	3.4	5.2
Arkansas	3	Stable or Appreciating	3	Stable or Appreciating	1.7	3.8	0.4	1.0	2.2	1.4
New Mexico	3	Stable or Appreciating	3	Stable or Appreciating	1.7	8.0	1.4	1.3	3.4	3.0
Montana	3	Stable or Appreciating	3	Stable or Appreciating	1.8	8.2	1.4	2.0	1.9	3.4
Tennessee	3	Stable or Appreciating	3	Stable or Appreciating	1.9	6.1	0.9	1.0	1.9	1.4
Wyoming	3	Stable or Appreciating	3	Stable or Appreciating	2.3	10.8	1.9	1.8	2.1	3.5
Hawaii	3	Stable or Appreciating	3	Stable or Appreciating	3.1	5.4	0.4	1.0	-3.4	7.8
Utah	3	Stable or Appreciating	3	Stable or Appreciating	3.3	16.0	3.5	1.9	4.5	3.1
North Dakota	3	Stable or Appreciating	3	Stable or Appreciating	4.0	5.9	0.5	1.2	1.2	1.2
AVERAGE					*0.6*	*3.2*	*0.9*	*1.3*	*1.5*	*2.8*

*** Note: Unless indicated otherwise, rate of price appreciation refers to seasonally adjusted quarterly house price growth rate (HPGR) or percent change from the previous quarter. They are calculated from the purchase-only, not seasonally adjusted house price index produced by the U.S. Office of Federal Housing Enterprise Oversight. The seasonality adjustments are made by RMIC.**

TABLE 2

TRENDS ON SUBPRIME, ALT-A AND OTHER NON-AGENCY LOANS SCHEDULED FOR MORTGAGE RATE RESET

* Counts in thousands and loan amount in billions of dollars.

	Number of Non-agency Loans Outstanding (as of May 2007)				Amount of Non-agency Loans Outstanding (as of May 2007)			
Time for the First Rate Reset	TOTAL	Subprime	Alt-A	Other Non-agency	TOTAL	Subprime	Alt-A	Other Non-agency
2006Q1	23.1	11.3	6.2	5.6	3.7	1.3	1.4	0.9
2006Q2	32.9	15.4	9.0	8.6	5.5	1.9	2.1	1.5
2006Q3	43.6	19.7	12.6	11.3	7.6	2.6	2.9	2.1
2006Q4	62.3	28.7	18.0	15.5	11.1	4.2	4.0	2.9
2007Q1	95.1	39.9	28.3	26.9	18.2	6.1	6.7	5.4
2007Q2	194.8	73.2	60.6	61.0	40.4	12.3	15.3	12.8
2007Q3	242.0	93.5	77.1	71.5	52.7	16.9	20.0	15.8
2007Q4	213.0	89.6	64.2	59.3	46.5	16.3	16.8	13.5
2008Q1	217.5	91.4	65.1	61.0	48.2	16.8	17.2	14.2
2008Q2	243.9	99.6	73.3	71.0	57.0	18.8	20.4	17.9
2008Q3	256.1	109.6	75.7	70.8	60.1	21.3	21.2	17.6
2008Q4	188.5	84.8	54.8	49.0	44.3	17.1	15.3	12.0
2009Q1	125.1	38.2	43.7	43.2	36.0	7.6	15.2	13.2
2009Q2	92.0	14.8	36.6	40.6	27.4	2.8	12.3	12.3
2009Q3	86.6	17.5	34.2	34.9	24.2	3.5	10.6	10.1
2009Q4	84.6	15.5	36.3	32.8	25.8	3.4	12.2	10.2
2010Q1	65.5	4.5	32.9	28.0	20.9	1.1	11.0	8.9
2010Q2	75.6	2.3	40.7	32.6	26.4	0.7	14.4	11.2
2010Q3	70.5	1.7	41.4	27.3	24.8	0.4	14.5	9.9
2010Q4	60.2	1.9	39.2	19.0	20.4	0.4	13.2	6.7

TABLE 3

GEOGRAPHIC CONCENTRATIONS OF SUBPRIME LOANS AND NON-AGENCY LOANS SCHEDULED FOR RATE RESET IN 2007-2009

As of 2nd Quarter of 2007

		Subprime Loans Serviced				Non-agency Loans Outstanding with Rate Reset in 2007-2009				
STATE	All Loans: Foreclosure Starts in 2007Q2	Rank by Subprime Share of Loans in the State	Count	As Share of All Subprime Loans in US (%)	As Share of All Loans Serviced in the State (%)	Count	Amount ($ in millions)	As Share of All Non-agency Loans with Reset in US (%)	As Share of All Loans Serviced in the State (%)	All Loans Serviced
Nevada	0.89	1	107,622	1.8	13.5	49,843	12,413	2.4	9.1	548,950
Arizona	0.49	2	200,639	3.4	10.7	88,367	18,071	4.3	7.4	1,187,678
Florida	0.73	3	566,556	9.6	8.8	220,639	45,992	10.8	6.5	3,396,032
California	0.65	4	824,736	14.0	8.7	419,419	163,294	20.6	7.5	5,576,654
Utah	0.29	5	59,147	1.0	8.3	22,396	4,075	1.1	5.2	430,518
Michigan	1.00	6	220,745	3.7	8.2	67,677	9,623	3.3	4.5	1,499,090
Rhode Island	0.79	7	20,826	0.4	7.8	7,346	1,745	0.4	5.3	137,492
Colorado	0.66	8	127,876	2.2	7.8	53,305	11,763	2.6	5.3	1,000,223
Illinois	0.63	9	228,997	3.9	7.3	90,795	18,768	4.5	5.4	1,667,730
Indiana	0.91	10	133,714	2.3	6.8	32,602	3,636	1.6	3.8	851,337
Maryland	0.36	11	134,750	2.3	6.7	54,582	14,285	2.7	5.2	1,049,630
Ohio	0.98	12	234,853	4.0	6.6	50,579	6,391	2.5	3.5	1,449,125
Georgia	0.70	13	203,826	3.5	6.5	72,138	12,290	3.5	4.6	1,582,548
Connecticut	0.49	14	66,860	1.1	6.2	24,540	6,342	1.2	4.7	526,850
Minnesota	0.63	15	97,177	1.6	6.1	35,536	7,072	1.7	3.9	908,457
Missouri	0.55	16	115,704	2.0	6.0	33,190	4,256	1.6	3.8	864,046
Massachusetts	0.59	17	92,624	1.6	6.0	33,764	9,997	1.7	4.2	800,719
Mississippi	0.69	18	41,793	0.7	6.0	8,326	957	0.4	3.4	244,793
Tennessee	0.57	19	130,442	2.2	6.0	31,852	4,059	1.6	3.8	838,876
Washington	0.27	20	125,448	2.1	5.8	55,891	13,097	2.7	4.8	1,171,319
Oregon	0.26	21	70,732	1.2	5.8	28,657	5,804	1.4	4.6	627,727
Maine	0.59	22	19,568	0.3	5.8	5,064	881	0.2	3.6	138,925
Wisconsin	0.53	23	66,916	1.1	5.7	24,776	3,520	1.2	4.2	596,644
D. C.	0.38	24	18,876	0.3	5.5	5,672	1,139	0.3	3.2	179,414
New Hampshire	0.44	25	24,435	0.4	5.4	7,570	1,614	0.4	3.8	197,456
Texas	0.52	26	428,982	7.3	5.4	112,073	15,010	5.5	3.7	3,009,011
New Jersey	0.46	27	143,898	2.4	5.3	47,593	13,707	2.3	3.8	1,241,283
Virginia	0.32	28	146,537	2.5	5.3	54,752	14,182	2.7	4.0	1,382,026
Kentucky	0.63	29	55,520	0.9	5.2	13,726	1,646	0.7	3.2	428,522
Louisiana	0.56	30	65,952	1.1	5.0	13,494	1,734	0.7	2.9	462,941
Pennsylvania	0.44	31	219,303	3.7	5.0	50,405	7,376	2.5	3.3	1,508,106
Idaho	0.29	32	27,226	0.5	4.8	10,071	1,656	0.5	3.6	281,427
New York	0.47	33	291,546	4.9	4.8	59,189	19,741	2.9	3.0	2,003,013
South Carolina	0.54	34	79,454	1.3	4.6	18,035	3,082	0.9	2.8	633,968
Hawaii	0.28	35	21,282	0.4	4.6	7,584	2,949	0.4	4.1	184,813
North Carolina	0.46	36	150,642	2.6	4.6	39,796	6,419	2.0	2.9	1,356,128
Kansas	0.48	37	36,425	0.6	4.3	9,439	1,181	0.5	2.8	332,450
Alabama	0.50	38	63,586	1.1	4.2	15,876	2,021	0.8	2.7	587,032
Oklahoma	0.57	39	56,235	1.0	4.2	11,704	1,249	0.6	2.8	421,620
New Mexico	0.36	40	26,078	0.4	4.2	7,210	1,266	0.4	2.9	250,174
Delaware	0.38	41	9,085	0.2	4.1	4,719	1,591	0.2	5.1	91,659
Wyoming	0.20	42	6,377	0.1	4.0	2,492	396	0.1	3.6	69,036
Vermont	0.35	43	5,031	0.1	3.9	1,710	331	0.1	2.8	62,054
Arkansas	0.42	44	31,012	0.5	3.8	7,514	882	0.4	2.5	300,382
Nebraska	0.47	45	20,084	0.3	3.7	6,154	705	0.3	2.9	210,869
Iowa	0.46	46	30,616	0.5	3.6	9,273	993	0.5	2.6	354,694
West Virginia	0.52	47	15,765	0.3	3.2	2,994	404	0.1	2.4	126,538
Alaska	0.28	48	10,864	0.2	2.7	2,580	538	0.1	2.8	92,309
Montana	0.27	49	8,776	0.1	2.6	3,145	555	0.2	2.3	138,838
South Dakota	0.27	50	4,952	0.1	2.4	1,828	217	0.1	2.1	85,922
North Dakota	0.21	51	3,078	0.1	2.3	1,277	139	0.1	2.0	63,643
AVERAGE	*0.51*		*115,552*	*2.0*	*5.6*	*39,984*	*9,432*	*2.0*	*3.9*	*846,092*
SUM			*5,893,168*	100.0		*2,039,159*	*481,054*	*100.0*		*43,150,691*

Source: Calculated from First American Loan Performance's ABS and MBS databases, MBA's National Delinquency Survey and OFHEO's House Price Index.

TABLE 4

CONCENTRATION OF RISKIEST SUBPRIME LOANS VS. HOUSING PRICE AND AFFORDABILITY

As of 2nd Quarter of 2007

	The Riskiest Subprime Loans Securitized				Subprime Delinquency (Total Past Due in 2007Q2, %)	Home Price Indicators			Housing Affordability
STATE	Rank	Share of All Non-agency Loans Securitized in the State (%)	Share of All Subprime Loans Serviced in the State (%)	Count		Annual Rate Mean	Annual Rate Volatility	Median Price (ths. $)	
Nebraska	1	19.9	35.2	2,770	18.7	4.5	1.6	126	187
Mississippi	2	19.8	31.8	4,672	26.9	4.3	2.0	124	158
Iowa	3	19.8	37.2	4,746	19.3	4.5	1.2	121	200
North Dakota	4	19.5	39.7	581	13.5	4.9	2.4	124	229
Indiana	5	18.6	26.9	15,549	19.3	3.5	1.0	111	215
South Dakota	6	18.4	39.3	795	16.1	5.1	1.8	115	200
Oklahoma	7	18.1	35.6	6,245	17.8	4.1	1.2	116	192
Louisiana	8	18.0	31.0	7,160	22.5	5.5	2.3	138	143
Kentucky	9	17.8	30.0	6,626	19.0	4.3	0.9	122	183
Arkansas	10	17.4	33.1	3,774	19.9	4.3	1.6	112	173
Alabama	11	17.3	34.1	8,423	22.3	4.4	1.8	136	166
Missouri	12	17.1	31.9	16,626	22.3	4.7	1.2	131	179
Pennsylvania	13	17.0	35.1	26,288	19.5	4.8	3.8	170	153
West Virginia	14	16.9	39.6	1,615	26.1	4.1	2.4	148	139
Wyoming	15	16.8	43.0	1,185	13.5	7.0	3.5	156	188
Kansas	16	16.3	30.3	4,338	17.9	4.5	1.1	137	184
Michigan	17	15.9	24.2	29,825	23.9	4.4	3.1	129	203
Wisconsin	18	15.8	34.9	11,804	18.0	5.4	1.7	160	166
Tennessee	19	15.8	29.9	15,003	22.2	4.6	1.6	148	146
Texas	20	15.6	32.9	53,586	18.7	4.1	1.8	140	160
Ohio	21	14.8	24.0	22,800	19.3	3.7	1.2	123	205
Alaska	22	14.8	43.5	1,097	15.2	5.3	3.0	205	140
Delaware	23	14.6	37.3	2,757	16.9	5.4	5.1	217	131
Connecticut	24	13.9	32.4	10,485	17.8	4.9	5.4	314	113
North Carolina	25	13.2	26.1	16,133	18.6	4.5	1.6	170	137
New Hampshire	26	12.8	29.3	3,147	20.4	6.0	5.9	208	146
Montana	27	12.8	37.3	1,337	12.2	7.3	3.7	156	143
Vermont	28	12.6	32.9	793	15.5	5.4	4.9	176	162
Georgia	29	12.3	24.2	24,906	19.7	4.6	1.5	154	144
Illinois	30	11.7	27.3	33,338	17.0	5.0	1.8	228	116
South Carolina	31	11.6	25.8	7,611	17.9	4.5	1.7	166	129
Maine	32	11.3	29.6	2,374	19.3	5.5	5.2	191	133
Minnesota	33	10.7	19.8	10,943	16.7	6.3	3.1	183	160
Idaho	34	10.7	30.5	4,098	12.4	6.3	4.6	192	117
New Mexico	35	10.7	29.8	3,106	14.0	5.9	4.3	182	114
Florida	36	10.6	27.7	82,784	16.1	7.8	6.9	253	95
Utah	37	10.3	20.5	7,274	9.4	7.5	5.7	202	122
Arizona	38	10.1	24.2	30,713	11.2	8.1	7.2	247	86
Rhode Island	39	9.8	26.6	2,849	20.4	6.2	7.8	271	102
Colorado	40	9.5	17.3	13,430	12.0	6.9	3.2	231	120
Washington	41	9.5	25.8	17,693	10.4	6.8	4.1	300	88
Oregon	42	9.2	23.3	8,541	10.2	8.0	4.2	263	88
Maryland	43	9.1	30.2	21,284	16.2	6.8	7.0	324	106
New Jersey	44	8.8	28.7	18,767	17.0	6.6	5.9	364	95
Virginia	45	8.7	26.3	19,101	16.4	6.2	4.9	285	98
Massachusetts	46	8.5	22.7	10,934	19.8	6.3	5.9	358	96
New York	47	8.1	21.8	20,806	16.0	5.6	5.0	284	92
Nevada	48	7.5	17.1	12,716	12.2	6.9	8.5	307	73
District Of Columbia	49	6.7	27.2	1,373	15.4	9.1	9.6	390	70
Hawaii	50	5.3	22.9	1,936	11.5	5.7	10.1	522	56
California	51	5.3	18.6	90,258	14.2	7.1	9.3	489	57
AVERAGE		*13.3*	*29.5*	*14,255*	*17.2*	*5.6*	*3.9*	*208*	*139*
SUM				*726,995*					

Source: Calculated from First American Loan Performance's ABS and MBS databases, OFHEO's House Price Index, and MBA's National Delinquency Survey.

APPENDIX 1.

Methodology and Terminology Used in Geographic Distribution of Home Price Risk

Current Status: The currently declining markets are defined as the markets where home prices experienced a negative growth (or depreciation) as measured by both the quarterly and annual rates of price appreciation for the 2nd quarter of 2007. The currently stable/appreciating markets are the markets with a positive growth of home price, as measured by the quarterly and annual rates of price appreciation. The quarterly price growth rate for a state/appreciating market also has to be at least close to its historical average for the 2nd quarter. The currently transitioning markets are the markets in between, including the markets that are transitioning toward either declining or stable/appreciating, as well as those with mixed signals.

Market Trend Projections: The market trend projections are developed on the basis of serial correlation, using multiple home price indicators that are predictive of short-term future market direction for up to four quarters.

A market is projected to be a *declining market* if it has experienced a negative quarterly home price growth over the two most recent quarters consecutively, or it had a substantial price decline in the most recent quarter that was preceded by a positive but small-pace appreciation of home prices in the previous quarter. Typically, a declining market also had depreciation in terms of an annual growth rate.

A market is projected to be a *stable/appreciating market* if it has had positive price appreciation over the two most recent quarters and compared to the same quarter a year ago. Additional criteria for stable/appreciating market determinations are to compare the quarterly growth rate in the 2nd quarter of 2007 with that in the previous quarter, in the same quarter a year or two years ago, and other price indicators.

A transitioning market is a market between declining and stable/appreciating markets. Transitioning markets include those that are transitioning toward declining or stable/ appreciating, while a pattern in either direction has not emerged or is not supported by sufficient data. They also include some markets with mixed signals such that their future directions in home price movement are difficult to assess at present.

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