

## Bank Lending Trends - 2Q 2008 Estimates

Final figures for the second quarter 2008 are not due out for another month (late August), however based on earnings reports and call report filings from several banks, Foresight Analytics offers its advance estimates of what the final 2Q 2008 results will be. Note: these are preliminary estimates, not the final results.

### Residential Mortgages (First-Lien Single Family Mortgages)

- Total delinquencies rose at an accelerated pace to an estimated 5.4% during the second quarter, up from 4.7% in Q1, and 4.2% in Q4 2007.
- Nonaccrual rates rose sharply, from 1.9% to an estimated 2.7% during the second quarter. The nonaccrual rate was as low as 0.5% in Q3 2006.
- These rates likely will rise further, as falling home prices and weak sales volume weigh on the housing sector.

### Construction Lending

- Total delinquencies rose rapidly to an estimated 9.0%, up from 7.2% in Q1. The total delinquency rate is approaching the 9.7% rate registered at year-end 1993, but still well shy of the 16.1% at year-end 1992.
- Nonaccruals continued to increase significantly, rising to an estimated 5.7% in Q2, up from 4.3% in Q1. This rate is nearly five times the rate in Q2 2007.
- The weak housing market is hitting the construction sector especially hard. While single family construction loans are the main source of problems, early re-

sults for several banks indicate that other sectors of construction (including for commercial real estate) are experiencing increased delinquency rates.

### Commercial Mortgages

- The total delinquency rate rose to an estimated 2.1%, up from 1.8% in Q1, and 1.6% in Q4 2007.
- The increase is mainly due to nonaccrual loans, with the nonaccrual rate increasing to an estimated 1.1%, up from 0.9% in Q1.
- The commercial mortgage sector remains much healthier than for-sale residential. However, concerns about valuations and tighter underwriting standards are constraining availability of debt financing. CMBS deal flow remains very low, limiting borrowers' options. A sharper or prolonged economic downturn could pose further problems for the commercial mortgage sector.

See the following page for a discussion of our previous estimates' accuracy.

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### Total Delinquency and Nonaccrual Rates U.S. Banks and Thrifts

	Actual								Estimate	
	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
<b>Residential Mortgages*</b>										
Total Delinquency**	1.9%	1.9%	2.0%	2.4%	2.4%	2.7%	3.4%	4.2%	4.7%	5.4%
Nonaccrual	0.5%	0.5%	0.5%	0.6%	0.7%	0.8%	1.1%	1.5%	1.9%	2.7%
<b>Construction Loans</b>										
Total Delinquency**	1.1%	1.0%	1.3%	1.7%	2.0%	2.3%	3.2%	5.0%	7.2%	9.0%
Nonaccrual	0.3%	0.3%	0.5%	0.6%	0.8%	1.2%	1.7%	2.9%	4.3%	5.7%
<b>Commercial Mortgages</b>										
Total Delinquency**	1.1%	1.0%	1.1%	1.1%	1.2%	1.1%	1.4%	1.6%	1.8%	2.1%
Nonaccrual	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.7%	0.9%	1.1%

\* First-Lien Mortgages.

\*\* Includes 30+ Days Past Due and Nonaccruals

Sources: FDIC, Foresight Analytics

<b>Accuracy of Previous Estimates</b>						
	Actual		Estimate		Difference	
	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08
<b>Residential Mortgages*</b>						
Total Delinquency**	4.2%	4.7%	3.8%	5.0%	-0.4%	0.3%
Non-Accrual	1.5%	1.9%	1.5%	2.0%	0.0%	0.1%
<b>Construction Loans</b>						
Total Delinquency**	5.0%	7.2%	4.8%	7.1%	-0.2%	-0.1%
Non-Accrual	2.9%	4.3%	3.2%	4.4%	0.3%	0.1%
<b>Commercial Mortgages</b>						
Total Delinquency**	1.6%	1.8%	1.7%	1.8%	0.1%	0.0%
Non-Accrual	0.7%	0.9%	0.9%	0.9%	0.2%	0.0%
* First-Lien Mortgages.						
** Includes 30+ Days Past Due and Nonaccruals.						
Sources: FDIC, Foresight Analytics						

## Accuracy of Previous Estimates

### Residential Mortgages

- Our preliminary estimates of total delinquencies have been relatively accurate, but have been hampered by difficulty in estimating the 30+ day past due rate.
- Nonaccrual rate estimates have been accurate, with spreads of 0.0% and 0.1% between estimated and actual rates in Q4 07 and Q1 08, respectively.

### Construction Loans

- Our estimates have been quite accurate, especially given the volatility in the figures.
- In Q1, our total delinquency estimate was 0.1% below actual, while our nonaccrual estimate was 0.1% above actual.

### Commercial Mortgages

- Our estimates have been very accurate. This sector has experienced low volatility so far in this cycle, so part of our accuracy stems from the general stability in the figures.
- Our Q1 estimates for both total delinquency and nonaccrual rates matched the actual rates.