

Bank Lending Trends - 4Q 2008 Estimates

Final figures for the fourth quarter 2008 are not due out for another few weeks (late February), but based on earnings reports and call report filings from several banks, Foresight Analytics offers its advance estimates of what the final 4Q 2008 real estate loan delinquency results will be. Note: these are preliminary estimates, not the final results.

Residential Mortgages (First-Lien Single Family Mortgages)

- Total delinquencies rose to an estimated 6.8% during the fourth quarter, up from 6.4% in the third quarter and 4.2% in the fourth quarter of 2007.
- Nonaccrual rates rose by 0.3%, from 2.9% to an estimated 3.2% during the third quarter. This is the highest nonaccrual rate since at least 1992, the beginning point for our data.
- The rate of increase during the third and fourth quarters appears to have slowed, possibly indicating that delinquencies are nearing a peak. The 30 basis point increase in the rate during the past two quarters was the lowest since the second quarter of 2007.

Construction Lending

- Total delinquencies jumped to an estimated 11.2%, up from 9.6% in Q3. This rate has now surpassed the 9.7% rate registered at year-end 1993, but is still somewhat shy of the 16.1% at year-end 1992.
- Nonaccruals are driving the increase, rising to an estimated 8.2% in Q4, up from 6.9% in Q3 and 2.9% at year-end 2007.

- The weak housing market is hitting the construction sector especially hard. While single family construction loans are by far the main source of problems, results for many smaller banks indicate rising delinquency rates for other construction sectors, including commercial real estate construction.

Commercial Mortgages

- The total delinquency rate rose to an estimated 2.6%, up from 2.1% in Q3, and 1.6% at year-end 2007.
- The estimated 50 basis point increase during the fourth quarter is the most rapid rate of increase since delinquencies started their upward trend in 2006. The 2.6% delinquency rate is still well below the 7.5% delinquency rate at year-end 1991 (estimated), but it is worrisome in light of a rapidly eroding economy, severely constrained credit availability and our estimate of \$160 billion in commercial mortgages coming due during 2009.

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

For more information, contact:

Matt Anderson m.anderson@foresightanalytics.com
Partner

Susan Persin s.persin@foresightanalytics.com
Partner

Tel: (510) 893-1760
Web: <http://www.foresightanalytics.com>

Total Delinquency and Nonaccrual Rates U.S. Banks and Thrifts										
	Actual									Estimate
	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Residential Mortgages*										
Total Delinquency**	2.0%	2.4%	2.4%	2.7%	3.4%	4.2%	4.7%	5.5%	6.4%	6.8%
Nonaccrual	0.5%	0.6%	0.7%	0.8%	1.1%	1.5%	2.0%	2.6%	2.9%	3.2%
Construction Loans										
Total Delinquency**	1.3%	1.7%	2.0%	2.3%	3.2%	5.0%	7.2%	8.1%	9.6%	11.2%
Nonaccrual	0.5%	0.6%	0.8%	1.2%	1.7%	2.9%	4.3%	5.7%	6.9%	8.2%
Commercial Mortgages										
Total Delinquency**	1.1%	1.1%	1.2%	1.2%	1.4%	1.6%	1.8%	1.9%	2.1%	2.6%
Nonaccrual	0.5%	0.5%	0.5%	0.6%	0.6%	0.7%	0.9%	1.1%	1.2%	1.6%
* First-Lien Mortgages.										
** Includes 30+ Days Past Due and Nonaccruals										
Sources: FDIC, Foresight Analytics										

	Accuracy of Previous Estimates								
	Actual			Estimate			Difference		
	Q1 08	Q2 08	Q3 08	Q1 08	Q2 08	Q3 08	Q1 08	Q2 08	Q3 08
Residential Mortgages*									
Total Delinquency**	4.7%	5.5%	6.4%	5.0%	5.4%	5.8%	0.3%	-0.1%	-0.6%
Non-Accrual	2.0%	2.6%	2.9%	2.0%	2.7%	2.9%	0.0%	0.1%	0.0%
Construction Loans									
Total Delinquency**	7.2%	8.1%	9.6%	7.1%	9.0%	10.0%	-0.1%	0.9%	0.4%
Non-Accrual	4.3%	5.7%	6.9%	4.4%	5.7%	7.7%	0.1%	0.0%	0.8%
Commercial Mortgages									
Total Delinquency**	1.8%	1.9%	2.1%	1.8%	2.1%	2.4%	0.0%	0.2%	0.3%
Non-Accrual	0.9%	1.1%	1.2%	0.9%	1.1%	1.3%	0.0%	0.0%	0.1%
* 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.
- Our 3Q 2008 estimate understated the total delinquency rate by 60 basis points.
- Nonaccrual rate estimates have been accurate, with spreads of 0.0% to 0.1% between estimated and actual rates in Q4 07, Q1 08 and Q2 08.

Construction Loans

- Our estimates have been quite accurate, especially given the volatility in the figures.
- We overestimated the total delinquency rate in Q2 and Q3 08, by 90 and 40 basis points, respectively.
- We overestimated the jump in nonaccruals during 3Q 08, and have adjusted our 4Q estimate as a result.

Commercial Mortgages

- Our estimates have been 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.
- In Q2 and Q3, we overestimated the total delinquency rate by 0.2% and 0.3% respectively, while we were closer to the actual nonaccrual rate.

Terms

Loan Types

Residential Mortgages: the data shown here is for first-lien mortgages only, i.e., excluding second mortgages and home equity loans.

Construction Loans: loans for the construction of any structure (residential or commercial), including loans for land acquisition.

Commercial Mortgages: loans secured by non-residential commercial properties, including both owner-occupied and income-producing properties.

Delinquencies

30-89 Days Past Due: loans that are at least 30 days but less than 89 days past due, and still accruing interest.

90+ Days Past Due: loans that are 90 or more days past due and still accruing interest.

Nonaccrual: past due loans on which the lender has stopped accruing interest because full repayment is doubtful.

Total: all of the above categories combined.