



A Quarterly Forecast of California Residential Mortgage Risk and its Impact on Local Economies

EXECUTIVE SUMMARY

During Q2 2008, California's Core Mortgage Risk Index is up 41 percent from the previous year and is at the highest level in six years. The rise in California's index is more than twice the rise in the national mortgage risk index during the last year. Currently, California's index stands 239 percent above the level it was during Q1 2002, near the end of the last national recession.

EXHIBIT 1

CALIFORNIA CORE MORTGAGE RISK INDEX (CMRI) BY CBSA* - Q2 2008



Of the 28 Core Based Statistical Areas (CBSAs) that the California Core Mortgage Risk Monitor examines, the five markets most at risk over the next six months:

1. Riverside-San Bernardino-Ontario
2. Los Angeles-Long Beach-Glendale
3. Salinas
4. Modesto
5. Sacramento-Arden-Arcade-Roseville

The rise in California's mortgage risk is driven by home price declines, rising fraud and collateral risk, increasing delinquencies and foreclosures, and a deteriorating economy and labor market. During the past year, primary drivers were accelerating home price declines and rising delinquencies and foreclosures. As of Q1 2008, California home prices had declined by nearly 18% from the previous year and all 28 California markets had price declines. In Q2 2008, 26 markets experienced double-digit declines, up from 22 markets last quarter. Since the state's home prices peaked nearly three years ago, they have now dropped by 28%. Six California markets, led by Stockton, Merced and Modesto, have or are approaching 50% declines. Given the magnitude and acceleration of these declines, California home prices are not expected to recover in the near term.

*CBSAs ranked by mortgage risk relative to other California CBSAs—a market's ranking here is not necessarily the same as its national ranking.

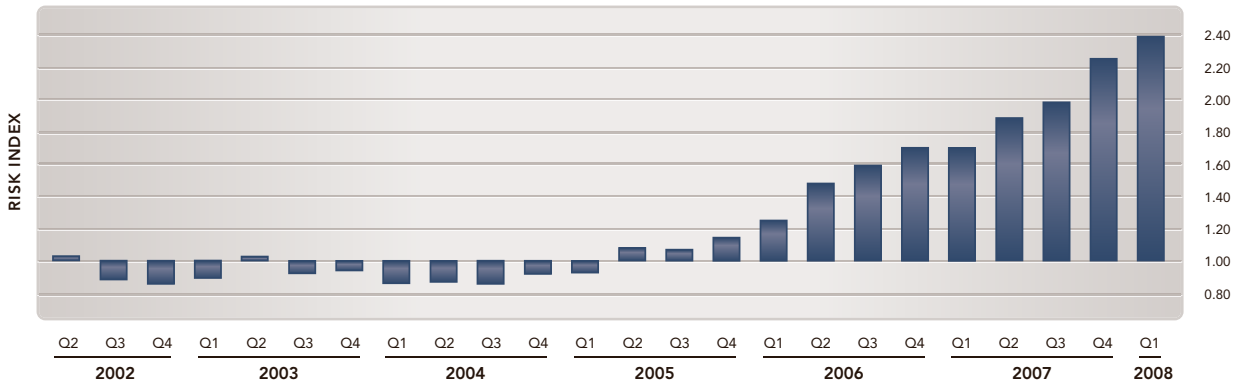
Source: First American CoreLogic

California's delinquencies and foreclosures are also rising at an increasing rate. During the four quarters ending in Q1 2008, more than 320,000 pre-foreclosures were initiated, which is 28 percent higher than in 2007 and more than triple the number in 2006. During the last year more than 450,000 total foreclosure related (pre-foreclosure, foreclosure and foreclosure sale) notices were initiated in California, which accounts for a foreclosure related notice on one in every 20 mortgage loans in the state. Currently, for every new residential building permit issued in California, three foreclosure notices are being issued. This stands in stark contrast to just two years ago when the ratio was nearly reversed. More worrisome is the rise in 90+ day delinquencies, which more than tripled during the last year as the rate rose from 1.5 percent during Q1 2007 to 4.8 percent during Q1 2008. The large and accelerating increase in the pipeline of seriously delinquent loans indicates that foreclosures and REOs will continue to rise for some time.



CALIFORNIA CORE MORTGAGE RISK INDEX TREND

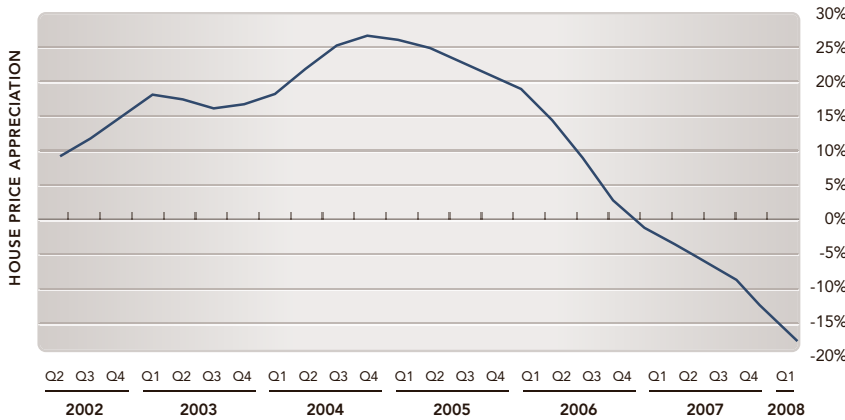
EXHIBIT 2



Source: First American CoreLogic

HOUSE PRICE APPRECIATION TREND*

EXHIBIT 3



*As data becomes more complete, revisions to prior quarter's house price data may lead to revisions in house price changes for that quarter.

Source: First American CoreLogic's LoanPerformance HPI

California's riskiest markets have shifted from the Central Valley to Southern California during the last few months. All exhibit steep and worsening home price declines, above-average foreclosure, fraud and collateral risk, and weakening labor markets with slow wage growth. Riverside and Los Angeles are now California's—and the country's—riskiest markets overall. Other Southern California markets, like Santa Ana and Santa Barbara, show large increases in mortgage risk. California's lowest risk market is Chico, with moderate price declines and lower relative foreclosure rates. Markets in this report are ranked for mortgage risk relative to other California markets only—low ranking here doesn't imply low risk nationally.

California's level of mortgage risk depends on the interaction of a number of housing, mortgage market, and economic factors. The decline in California's housing market has led to a self-reinforcing negative feedback loop where lower prices lead to more defaults and excess housing inventory, which causes demand to decline and prices to fall further. The impact of this downturn and its associated impact on wealth and ultimately consumer spending are leading to a broader economic slowdown. The combination of these factors will continue to increase mortgage risk with more severity, particularly in areas where home price declines are the largest.

To obtain a copy of the full report, including a map of the U.S. highlighting relative risk levels in 28 California markets, or to schedule an interview, please contact Analisa Schelle at 415-677-2721 or analisa.schelle@ogilvypr.com.

ABOUT THE CALIFORNIA MONITOR

The California Core Mortgage Risk Monitor (CMRM) is a quarterly publication providing an economic forecast, analysis and commentary on the relative risk of residential mortgage loan delinquencies due to fraud propensity and collateral risk, house price dynamics, and the health of local market economies. The Core Mortgage Risk Index (CMRI) is the basis for the forecast. An elevated CMRI signals the increased potential of financially disruptive and costly economic consequences for consumers, their communities, and mortgage financiers.



A First American Company (NYSE: FAF)

corelogic.com | 888.288.2009