

Bank Lending Trends - 2Q 2009 Estimates

Final figures for the second quarter 2009 are not due out for another month (late August), but based on earnings reports and call report filings from many banks, Foresight Analytics offers its advance estimates of what the final 2Q 2009 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 10.2% during the second quarter, up from 9.4% in the first quarter 2009 and 5.5% in the second quarter 2008.
- Nonaccrual rates rose by 0.8%, from 3.5% to an estimated 4.3% during the second quarter. This is a new record high for the nonaccrual rate since at least 1992, the beginning point for our data.
- The surge in 90+ day delinquencies that began in the fourth quarter of 2008, persisted during the first quarter of 2009, complicating our attempt to estimate overall delinquencies (see "Accuracy" discussion below).

Construction Lending

- Total delinquencies jumped to an estimated 17.1%, up from 14.5% in Q1. This rate is the highest since Q1 1993, but still below the 19.2% peak we calculate for Q1 1992.
- Nonaccruals are driving the increase, rising to an estimated 12.4% in Q2, up from 9.8% in Q1 and 2.9% at year-end 2007.
- While single family (and condo) construction loans are by far the main source of problems, our estimates

indicate that delinquency rates for other construction sectors, including apartments and commercial properties, are on the rise, too. Worsening fundamentals and reduced liquidity in the commercial real estate sector will likely contribute to further rises in the delinquency rate.

Commercial Mortgages

- The total delinquency rate rose to an estimated 4.5%, up from 3.6% in Q1, and more than double the 1.9% in Q1 2008.
- The estimated 90 basis point increase during the second quarter follows a 90 basis point rise in Q1 2009 and a 60 basis point increase in Q4 2008. We expect the delinquency rate to continue to rise through 2009.
- The 4.5% delinquency rate is still well below the 8% delinquency rate in Q3 1991, but it is worrisome in light of an eroding economy, severely constrained credit availability and a high volume of commercial mortgages coming due during 2009 and the next several years.

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										
	Q1 07	Q2 07	Q3 07	Actual Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Estimate Q2 09
Residential Mortgages*										
Total Delinquency**	2.4%	2.7%	3.4%	4.2%	4.7%	5.5%	6.4%	8.3%	9.4%	10.2%
Nonaccrual	0.7%	0.8%	1.1%	1.5%	2.0%	2.6%	2.9%	2.7%	3.5%	4.3%
Construction Loans										
Total Delinquency**	2.0%	2.3%	3.2%	5.0%	7.2%	8.1%	9.6%	11.4%	14.5%	17.1%
Nonaccrual	0.8%	1.2%	1.7%	2.9%	4.3%	5.7%	6.9%	7.7%	9.8%	12.4%
Commercial Mortgages										
Total Delinquency**	1.2%	1.2%	1.4%	1.6%	1.8%	1.9%	2.1%	2.7%	3.6%	4.5%
Nonaccrual	0.5%	0.6%	0.6%	0.7%	0.9%	1.1%	1.2%	1.4%	2.0%	2.6%
* First-Lien Mortgages.										
** Includes 30+ Days Past Due and Nonaccruals										
Sources: FDIC, Foresight Analytics										

	Accuracy of Previous Estimates								
	Actual			Estimate			Difference		
	Q3 08	Q4 08	Q1 09	Q3 08	Q4 08	Q1 09	Q3 08	Q4 08	Q1 09
Residential Mortgages*									
Total Delinquency**	6.4%	8.3%	9.4%	5.8%	6.8%	8.6%	-0.6%	-1.5%	-0.8%
Non-Accrual	2.9%	2.7%	3.5%	2.9%	3.2%	3.1%	0.0%	0.5%	-0.4%
Construction Loans									
Total Delinquency**	9.6%	11.4%	14.5%	10.0%	11.2%	13.5%	0.4%	-0.2%	-1.0%
Non-Accrual	6.9%	7.7%	9.8%	7.7%	8.2%	9.8%	0.8%	0.5%	0.0%
Commercial Mortgages									
Total Delinquency**	2.1%	2.7%	3.6%	2.4%	2.6%	3.2%	0.3%	-0.1%	-0.4%
Non-Accrual	1.2%	1.4%	2.0%	1.3%	1.6%	1.8%	0.1%	0.2%	-0.2%
* 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 generally trailed behind the actual rate, especially during the two previous quarters (Q4 2008 and Q1 2009).
- Our Q1 2009 estimate understated the total delinquency rate by 80 basis points, due to a continued high rate of 90+ day delinquencies. Typically, this category is small, but lenders have delayed classification of many of these loans as nonaccrual, instead working with borrowers to restructure the loans.
- The error on nonaccrual rate estimates was -40 basis points, partly reflecting swings in estimates caused by the issues in classifying 90+ day delinquencies as nonaccrual.

Construction Loans

- Our estimates have been accurate, especially given the volatility in the figures.
- We underestimated the total delinquency rate in Q1 2009 by 100 basis points.
- We accurately estimated nonaccrual loans in Q1 2009.

Commercial Mortgages

- We underestimated the total delinquency rate in Q1 2009, undershooting by 40 basis points.
- In Q1, we underestimated the nonaccrual rate by 20 basis points.

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.