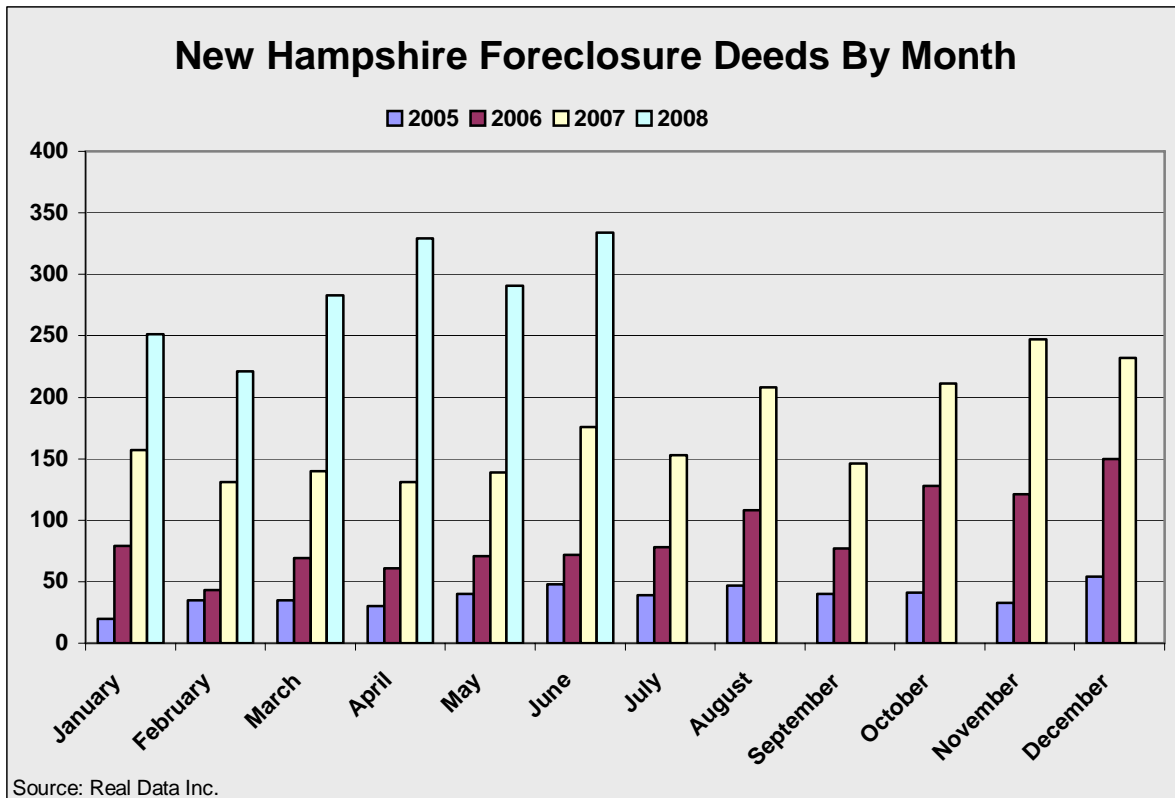


Mortgage Delinquency, Foreclosures, and Subprime Lending in New Hampshire, Update July 2008.

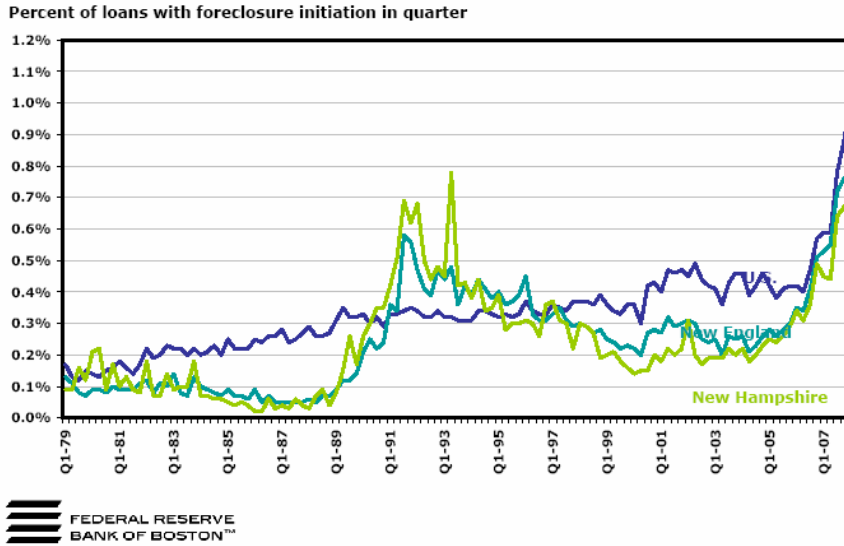
Nine months ago, New Hampshire Housing authored a white paper titled “Mortgage Delinquencies, Foreclosures, and Subprime Lending in New Hampshire, How Big is the Problem?” In the ensuing months this topic has received significant attention and it remains one of New Hampshire’s hottest issues. To keep you informed, we have compiled a brief update to some of the key points covered in the original white paper.

The mortgage crisis in New Hampshire has deepened over the past year. The pace of foreclosure deed recordings continues to increase over prior years, and is now well above earlier projections. Foreclosure deeds in June of this year represent an increase of 90% over the same month last year. Recorded foreclosures have exceeded 200 in 10 of the past 12 months, and at this pace will exceed 3,000 in the current year, an increase of more than 40% over 2007.

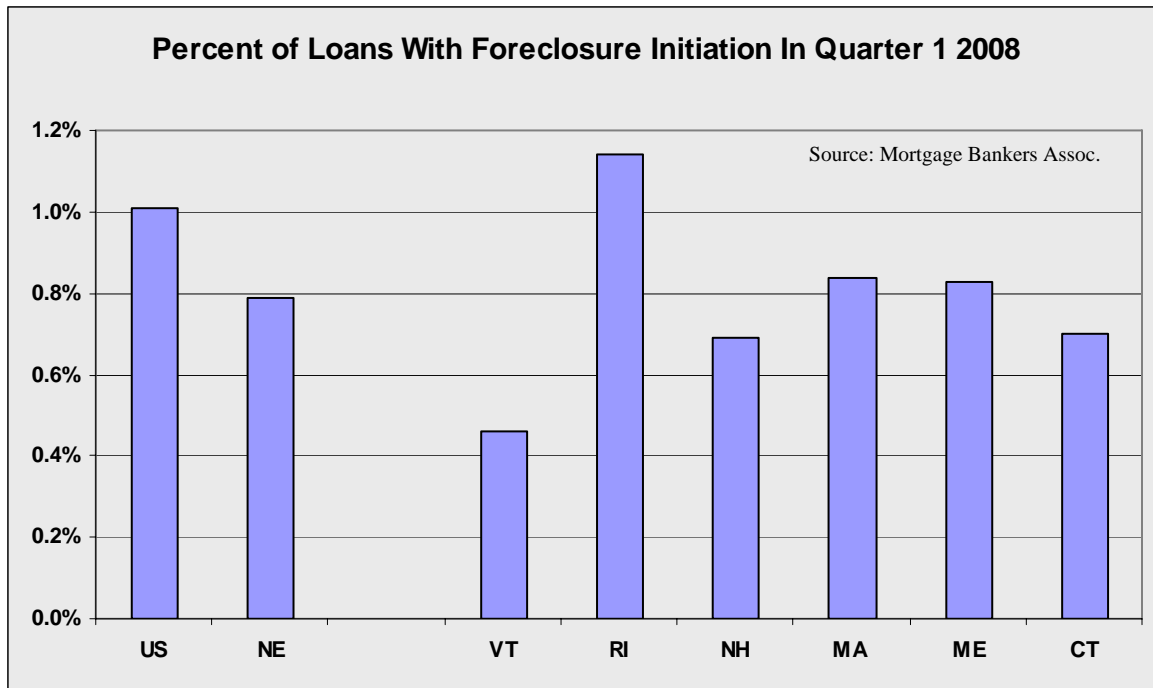


Based on the most recent Mortgage Bankers Association [National Delinquency Survey](#), the rate at which foreclosure initiations (properties entering the foreclosure process, not the same as recorded foreclosure deeds) were taking place in New Hampshire in the first quarter of 2008 increased to 0.69%, or about 1 in every 145 mortgage loans. This rate is similar to the rate of foreclosure initiation in New Hampshire during the early 1990s, during the region’s last significant real estate recession.

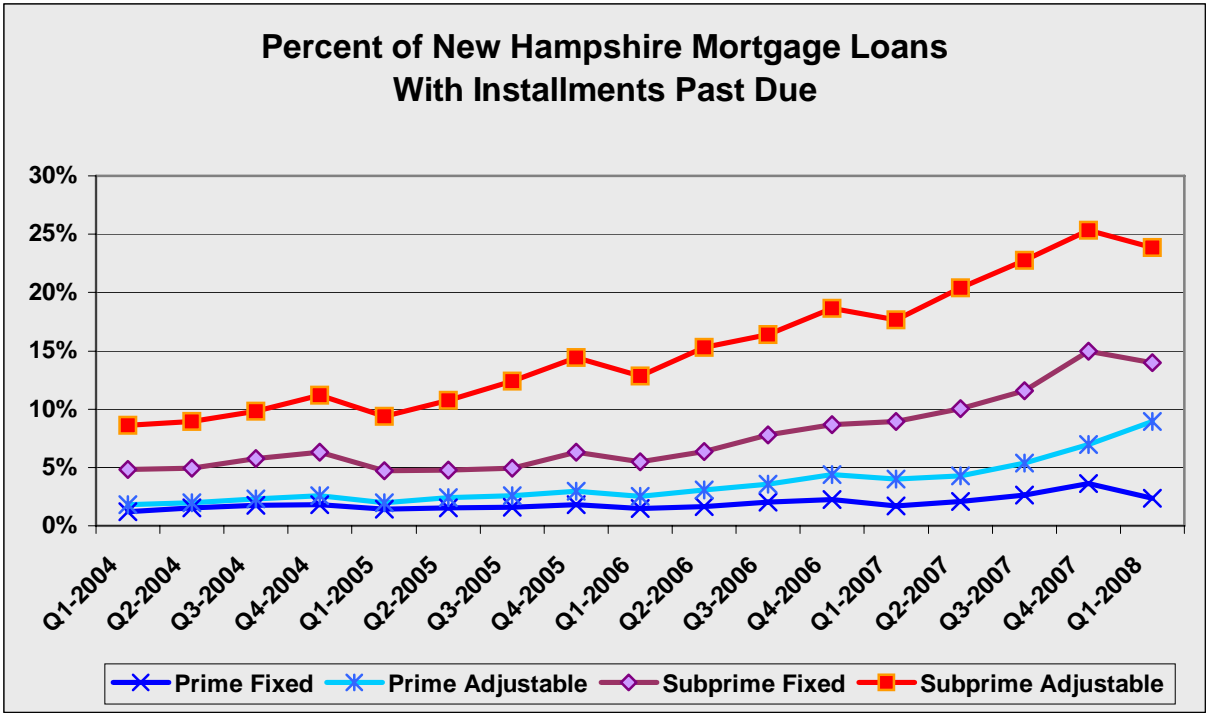
Foreclosure rates for United States, New England, and New Hampshire, through Q1-08



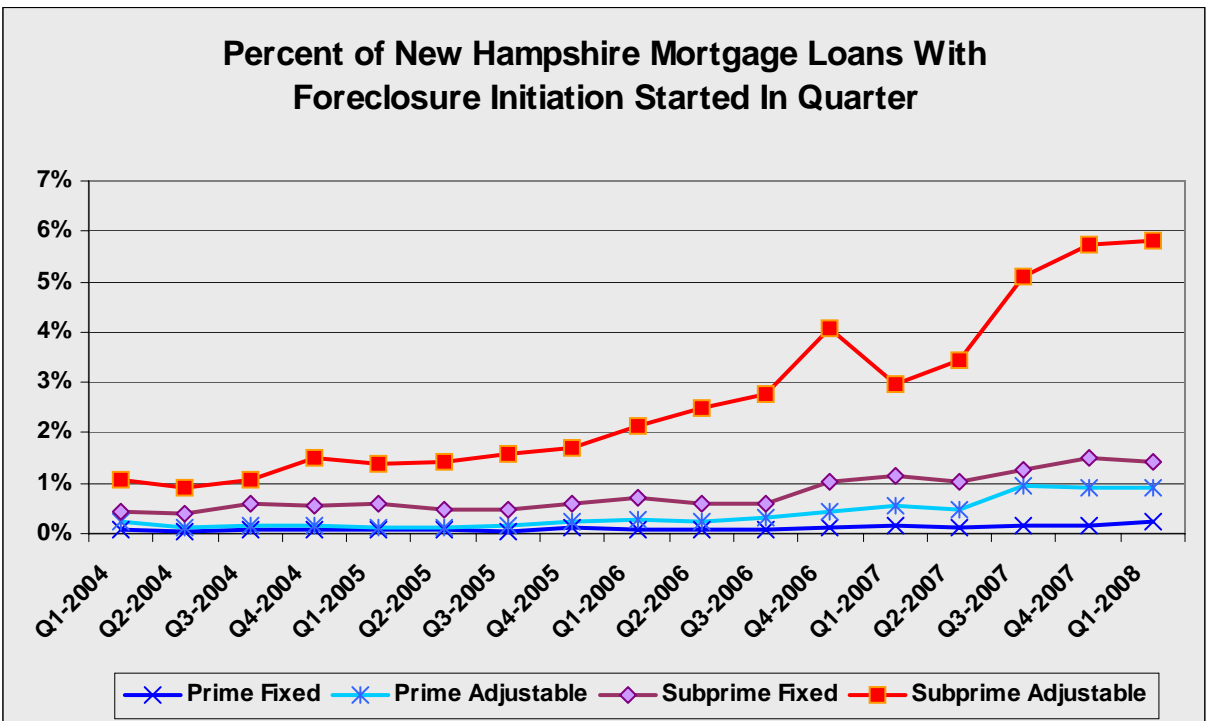
Of equal concern, the foreclosure initiation rate for the U.S. is now in excess of 1% (1.01%), or one in every 100 loans. This national rate has reached historic highs in each of the past six quarters. Over the past nine months the rate of foreclosure initiation has increased in each of the New England states; but, the rate in New Hampshire remains at or below the rate in all other states in the region except Vermont, and lower than New England and the U.S. on average.



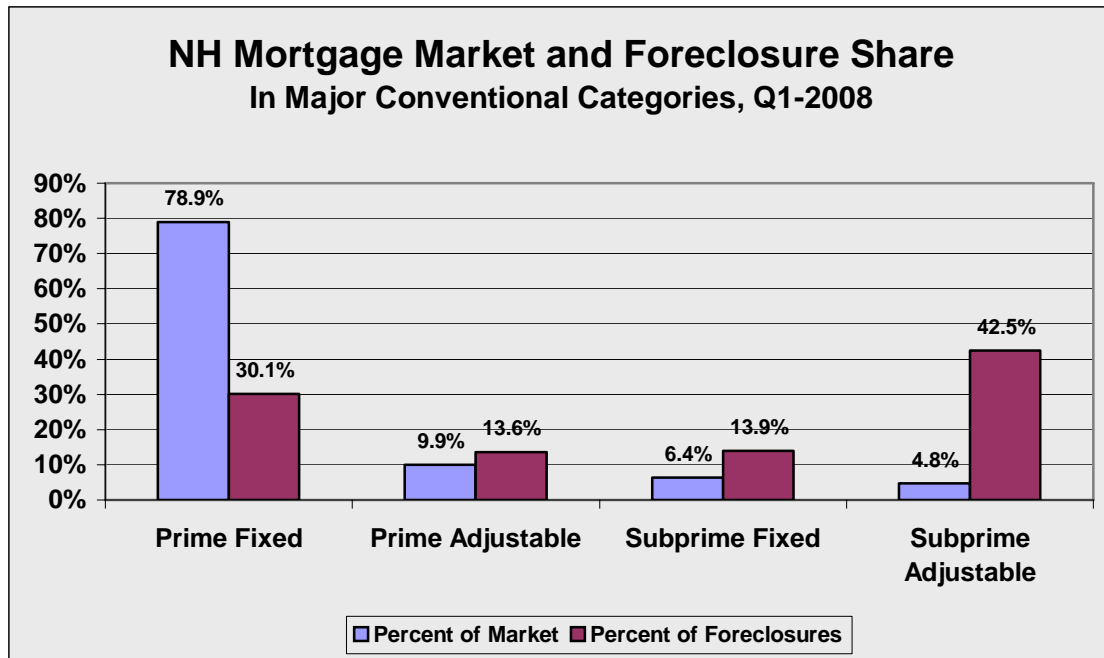
In September of last year, the bulk of the mortgage delinquency and foreclosure problem appeared to be confined to the subprime market. Since that time, however, delinquency rates (loans with installments past due) for all conventional mortgage loan types, not just subprime loans, have increased significantly.



In a similar pattern, notable increases in foreclosure initiation rates have spread from subprime loan categories to prime adjustable rate loans.



As a widespread practice, subprime lending came to an end during the first half of 2007. Since that time, the portfolio of subprime loans has eroded, either through refinancing, property sale or foreclosure. As a result, subprime loans currently make up a shrinking portion of the overall mortgage market, now 4.8% down from 6.1% nine months earlier.



Subprime adjustable rate mortgage loans continue to make up the largest share of the foreclosures, but that share shrank to 42.5% in first quarter of 2008, down from 48% in the fourth quarter of 2007. At the same time, the combined share of prime fixed rate and prime adjustable rate mortgages increased to almost 44% of foreclosures in the first quarter of this year, up from 36% in the fourth quarter of 2007.

Table 1 - Quarter 1 2008

All Loans	Percent	Loans
Loans with payment past due	5.06%	14,770
Loans with foreclosure started during the quarter	0.69%	2,010
Loans in foreclosure inventory at the end of quarter	1.62%	4,730
Prime Loans	Percent	Loans
Est. number of prime loans	85.5%	249,480
Prime loans with payment past due	3.26%	8,130
Prime loans with foreclosure started during the quarter	0.35%	870
Prime loans in foreclosure inventory at the end of quarter	0.79%	1,970
Subprime Loans	Percent	Loans
Est. number of subprime loans	10.8%	31,420
Subprime loans with payment past due	18.22%	5,720
Subprime loans with foreclosure started during the quarter	3.45%	1,080
Subprime loans in foreclosure inventory at the end of quarter	7.18%	2,260

Based on our calculations at the end of the first quarter of 2008, the number of mortgage loans in New Hampshire with payment past due was more than 14,700. This number has increased by 17% since the second quarter of 2007, and 87% of that increase has been in the prime loan category. Of equal concern, the number of loans with foreclosure initiations during the first quarter of 2008 is estimated at just over 2,000, an increase of more than 55% over the second quarter of last year. Again, the larger share (62%) of this increase has been in the prime loan category. On a brighter note however, nearly 95% of mortgage loans in New Hampshire remain current.

Multi-family Property Foreclosures

Not addressed in our original analysis of the foreclosure problem in New Hampshire is a breakdown of foreclosures by building type (single family and multi-family buildings). This analysis becomes important because in urban areas across the nation, renter households in multi-family buildings are becoming victims of the foreclosure crisis in growing numbers, frequently facing eviction with no advanced warning and with as little as thirty days to find new living quarters in a tightening rental housing market.

In New Hampshire, single family buildings make up about 68% of all dwelling units, and nearly 80% of these are owner occupied. Dwelling units in multi-family buildings comprise 26.5% of all units in New Hampshire, and the majority of these, 69%, are renter occupied. These relationships vary within the state, but especially in the more urbanized communities in the southern tier of the state where the concentration of multi-family buildings is greater. Nonetheless, renter occupied housing units in multi-family buildings make up only 18% of all housing units in the state, and only 22% of occupied housing units. Further, renter occupied units in multi-family buildings with five or more units account for only 12% of occupied housing units and in buildings of 10 or more units only 5%.

An examination of foreclosure deed records, as reported by Real Data Inc., shows that 8.3% or 88 of the 1,057 foreclosed properties in 2006 were multi-family or apartment buildings, and 164 or 7.9% of the 2,071 foreclosed properties in 2007 were multi-family or apartment buildings. It is acknowledged that the total renter households impacted by these foreclosures represents a greater number since multiple renter households are likely to be affected by each multi-family or apartment building foreclosure. Using U.S. Census 2006 American Community Survey estimates for the number of dwelling units by the number of units per building (with some assumptions as to the type of multi-family buildings being foreclosed on), it is our opinion that the factor of renter households impacted by each multi-family building foreclosure in New Hampshire is roughly 3.5 times. Thus, while multi-family and apartment buildings in 2006 and 2007 account for only about 8% of foreclosure deeds, as much as 23% of those households impacted by foreclosure are renter households.

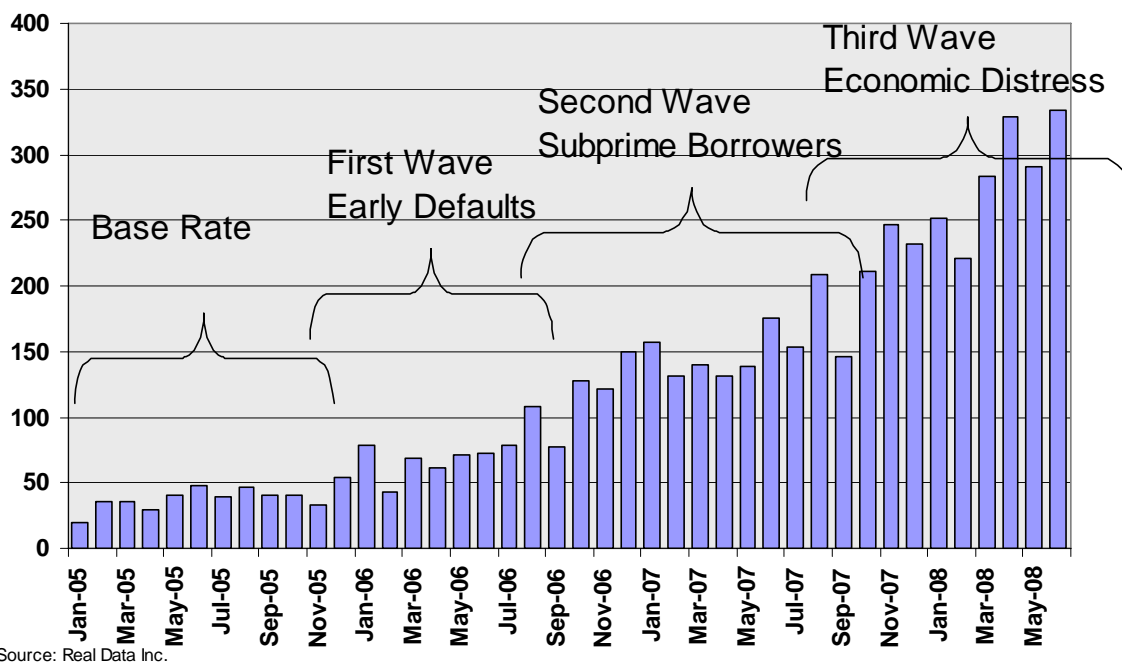
This problem is likely to worsen over the next year due to the significant increases in energy costs which impact all households, but may have an even greater impact on multi-family rental property owners who are paying for heating costs and may not be able to

cover these increased costs by increases in rents. Because renter incomes have remained flat, tenant ability to pay has essentially capped rents.

A Foreclosure Problem Timeline

As the foreclosure problem in New Hampshire evolves, it becomes increasingly important to analyze how it has changed and where the future impacts of this problem will manifest. Using the same foreclosure deed data presented on page one of this update, it is possible to explore a timeline of the foreclosure problem in New Hampshire to this point.

New Hampshire Foreclosure Deeds By Month



This analysis breaks the foreclosure problem into three overlapping waves, with somewhat distinct causes and evolving market conditions.

During the period prior to first quarter 2006, foreclosure initiations in New Hampshire were nearly stable at less than 0.3% of mortgages. For the purposes of this analysis this period is referred to as the base rate of foreclosures. The causes of foreclosure during this period were typically loss of household income due to job loss, divorce and medical expenses. While these problems were occurring at rates higher than suggested by actual foreclosure initiations, market conditions at that time provided many property owners the opportunity to sell or refinance their property to avoid or at least postpone foreclosure.

The first wave of increased foreclosure activity took place in New Hampshire during the first three quarters of 2006. At that time the foreclosure initiation rate moved above 0.3% and foreclosure deeds averaged almost 75 per month. This period can be referred to as the “Early Defaults” due at least in part to the high number of mortgage loans at the national

level that went into default during the first 18 months after initiation. While not considered a large problem in New Hampshire, these defaults were typical of investment buying and marginally qualified new home owners (or existing owners who recently refinanced) where the borrower had little or no capacity for long-term ownership under the terms of the mortgage. Many, if not most, of these borrowers had little equity and intended to sell or refinance the property, taking advantage of short-term appreciation and lax lending practices before their inability to meet the payment obligations became a problem. Real estate market conditions during this period were typified by a slowing demand (MLS sales were down 20% from the prior year) for an increasing inventory, as residential property moved from a seller's to a buyer's market. These tightening market conditions made it more difficult for borrowers falling behind on their mortgage payments to sell out of the problem.

The second wave of foreclosures in New Hampshire began in the third or fourth quarter of 2006 and in this analysis is referred to as "Subprime Borrowers" or "Rate Reset Defaults" since it coincided with the first rate reset period for subprime adjustable rate mortgages made in 2004 and 2005. Many of these borrowers had little or no equity, less than good credit scores and may have been able to afford the mortgage at the initial interest rate, but not after a reset. During this wave, the foreclosure initiation rate moved above the 0.4% rate and recorded foreclosure deeds averaged more than 145 per month, about double what the average was in the prior wave. Again, this wave of foreclosures had as much to do with market conditions as the borrower or the terms of the mortgage. At that time, demand for residential property continued to erode, properties were no longer appreciating in value, the on-market time for most property became extended and the availability of credit began to tighten. Troubled borrowers were no longer able to refinance, had even greater difficulty finding a buyer, and may not have been able to sell if the mortgage holder was unwilling to accept a loss.

The third wave of foreclosures began about the fourth quarter of 2007, when foreclosure initiation rates in New Hampshire moved above 0.5% and recorded foreclosure deeds averaged nearly 250 per month. This wave is titled "Economic Distress," since it has been marked by broadening economic problems including increased job losses, turbulence in the credit and equity markets, rapidly escalating energy costs and declining consumer confidence. The increasing defaults during this period have been typically the result of loss or disruption of household income resulting from these worsening economic conditions. Real estate market conditions have shown a continued decline in demand, excess inventory of available property and declining property values. As a result, many of these mortgage defaults have property with negative equity. Defaulting borrowers were no longer primarily those with initially weak credit; rather, they included prime borrowers who had adequate income until job loss, increased energy costs or other worsening economic conditions limited their ability to meet their financial obligations. These troubled borrowers typically could not refinance; and even if a potential buyer could be found, the property could not be sold without the willingness of the lender to accept a significant loss.

As the real estate market and other economic conditions show no sign of improvement and energy costs continue to rise, mortgage defaults as a result of these conditions will continue through the remainder of this year and into 2009. Indeed, New Hampshire along

with other northern New England states may suffer a higher level of mortgage delinquencies and foreclosures over the coming year due to our high reliance on fuel oil for home heating. With heating oil surpassing \$4.60 per gallon, this utility alone now makes up a significant and growing portion of a home owner's monthly housing cost.

It is apparent from this brief analysis that the mortgage foreclosure and delinquency problem in New Hampshire is ongoing and not confined to subprime lending. Further, market conditions, including a declining real estate market, tightening credit, increases in energy costs and a darkening overall economic outlook only contribute to this worsening problem. Concluding on a more positive note, compared to the early 1990s there has not been an over-building of housing in New Hampshire and the state is in a good position to weather the current economic downturn.