



Core Mortgage Risk Monitor

Q42008
RISK PROJECTIONS

A Quarterly Forecast of U.S. Residential Mortgage Risk and its Impact on Local Economies

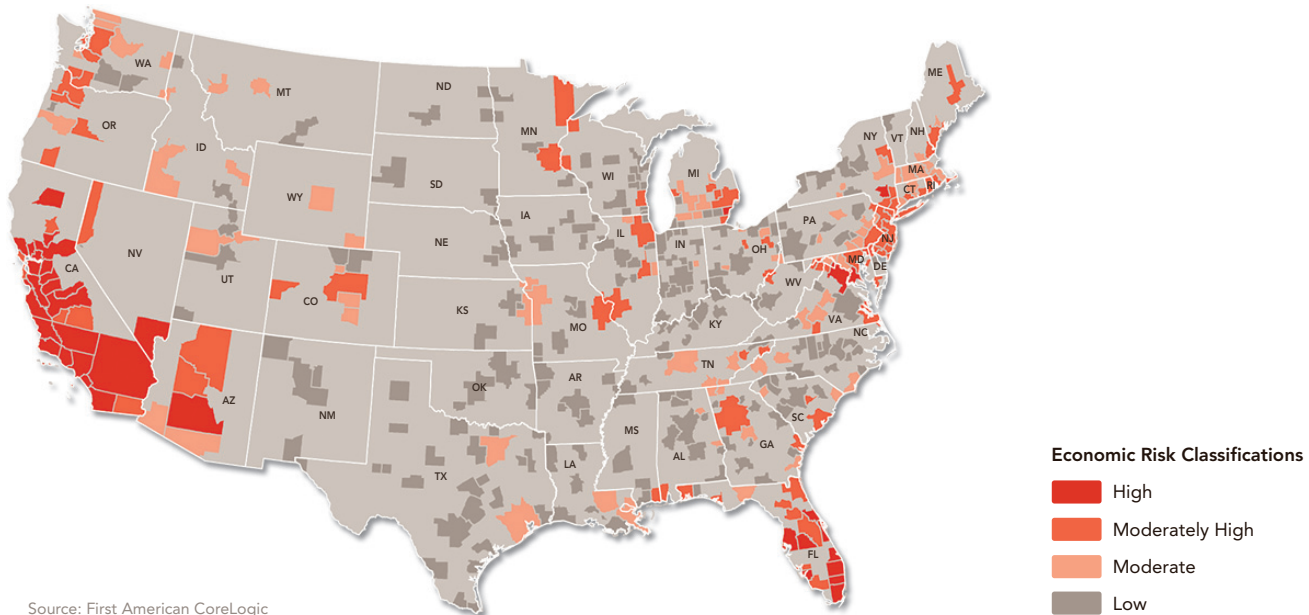
EXECUTIVE SUMMARY

The Q4 2008 Core Mortgage Risk Index (CMRI) (Exhibit 2) rose 12% from a year ago, down slightly from Q3's 15% increase year-over-year. The CMRI—which forecasts delinquency risk—nonetheless remains high at 54% above the base period of Q1 2002, a period near the end of the last U.S. economic recession. It should be noted that moderations in the current series of indices happened before (2007 Q1, 2007 Q3) only to be followed by subsequent upward trends. Due to current economic and financial market conditions, the CMRI is likely either to stabilize at or near this level or to rise further over the next 12 months.

The rate of home price decline, an important factor in assessing likely delinquency risk, has stabilized at around 11%, with almost zero acceleration in either direction. Because this rate is not increasing, home price declines are not raising the national risk index further at this time—but they're not reducing the risk either. While the risk index has been driven upward throughout 2007 and 2008 primarily by the acceleration of declines in home prices, there is now a geographic expansion of risk driven by fundamental economic conditions. Flat or declining wages and increasing job losses are beginning to affect the index more heavily in many markets.

CORE MORTGAGE RISK INDEX BY CBSA Q4-2008

EXHIBIT 1



Source: First American CoreLogic

At this time markets with the highest levels of mortgage risk reflect home price declines more than any other single factor, although economic fundamentals will likely return as a critical force driving increased risk over the next four quarters. Negative equity—currently 18% of all properties with mortgages, based on September data—which is a necessary but not sufficient condition for severe delinquency, is also weighing heavily on mortgage risk. Negative equity is high in many states where house prices grew dramatically in recent years (Nevada, Florida, California, Arizona) and in a few economically distressed states (Michigan, Ohio). While home price declines aggravate the risk that borrowers will find themselves in a state of negative equity, the risk of losing a job or facing other economic hardship increases the likelihood a borrower won't be able to make mortgage payments (and is the other necessary condition for severe delinquency). Both conditions are increasingly affecting borrowers in markets like Michigan.

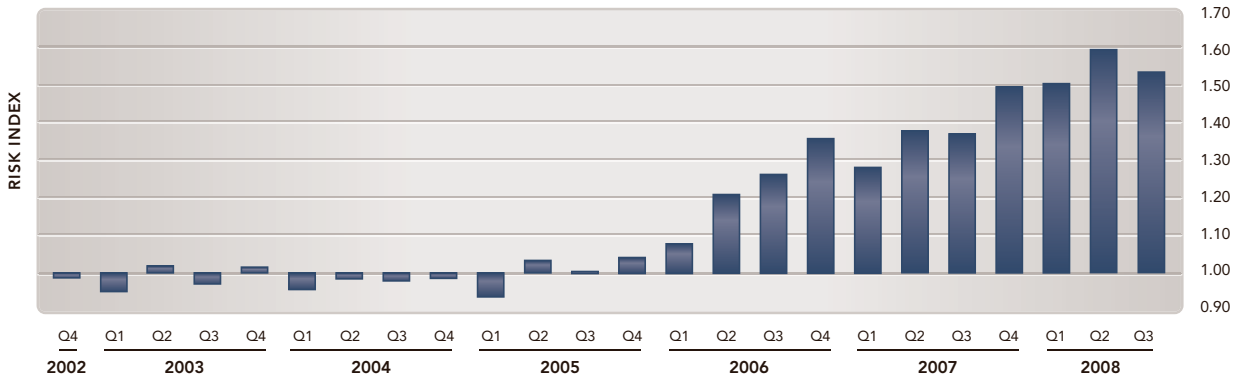


First American
CORELOGIC

First American CoreLogic, Inc. 2008. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission. The information contained within should not be construed as a recommendation for any course of action regarding financial, legal or accounting matters by First American CoreLogic, Inc.

NATIONWIDE CORE MORTGAGE RISK INDEX TREND

EXHIBIT 2

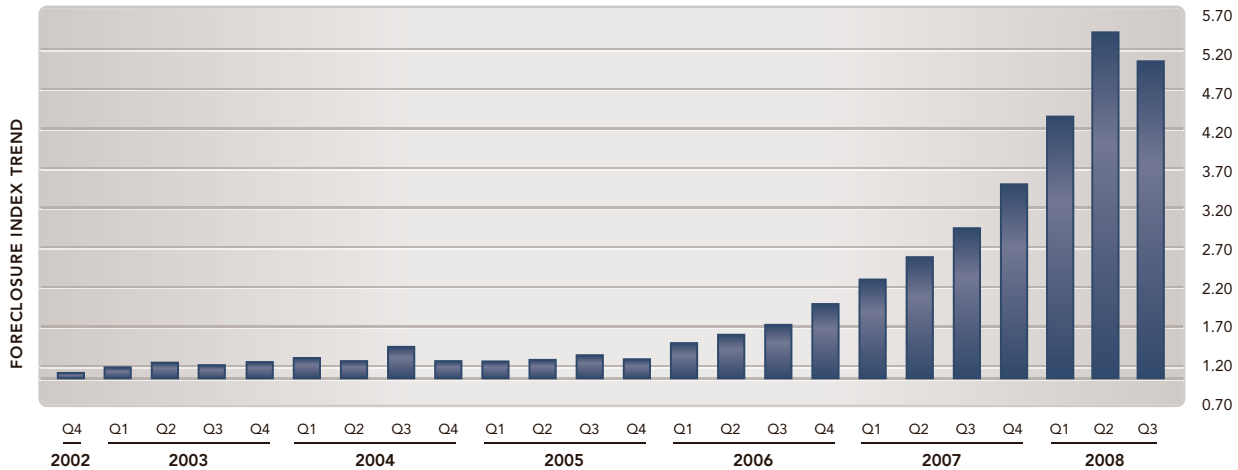


Source: First American CoreLogic

The unemployment rate is currently reaching levels last seen in 2003. The difference between then and now is that house prices were on the rise in 2003, alleviating family financial pressure. This time we're experiencing the two negative factors in mutually reinforcing combination. The result is most apparent in foreclosure rates. In 2003, the foreclosure rate was low even with high unemployment because borrowers who could not pay mortgages due to lost jobs had viable alternatives to raise cash: extract home equity to pay living expenses, refinance their homes, or sell them and rent. This time such options are sharply limited or completely unavailable. The current national 1.7% foreclosure rate represents a 70% increase from a year ago. In hard-hit Florida, Nevada and California, foreclosure rates are 5.6%, 2.9%, and 2.3% respectively, underscoring the dramatic impact of negative equity on foreclosure rates.

FORECLOSURE INDEX TREND

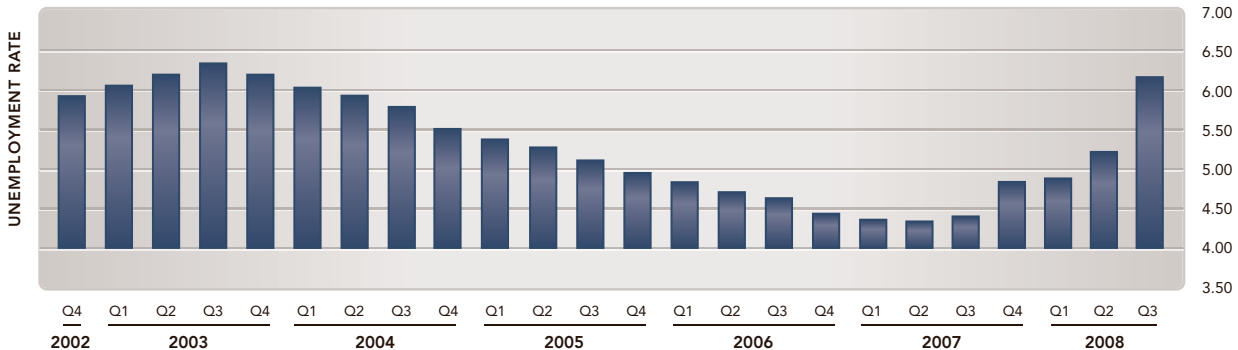
EXHIBIT 3



Source: First American CoreLogic

UNEMPLOYMENT TRENDS

EXHIBIT 4

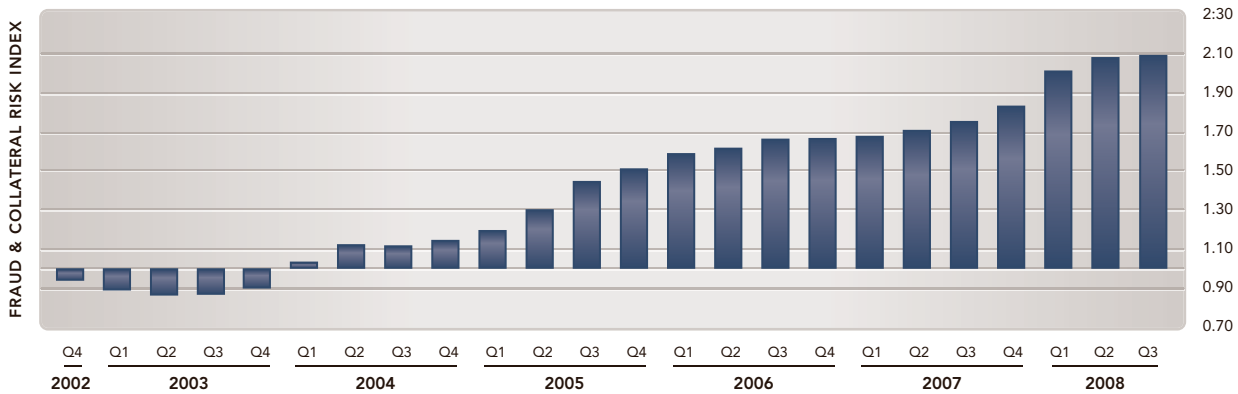


Source: First American CoreLogic



FRAUD AND COLLATERAL RISK INDEX TREND

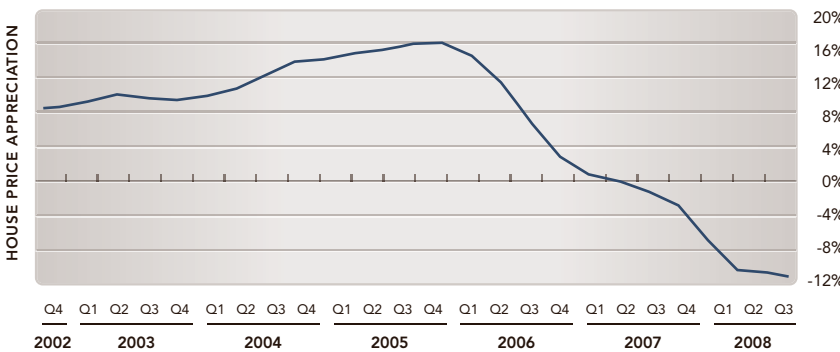
EXHIBIT 5



Source: First American CoreLogic

HOUSE PRICE APPRECIATION TREND*

EXHIBIT 6



*Estimates based on First American CoreLogic's LoanPerformance HPI year-over-year appreciation changes
Source: First American CoreLogic

HOUSE PRICE ACCELERATION TREND†

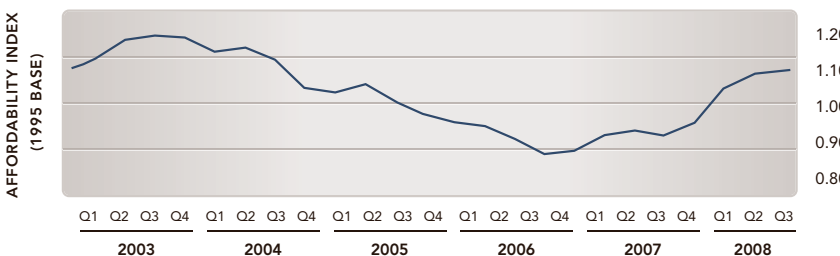
EXHIBIT 7



†Acceleration is the second-order rate of appreciation change, indicating how quickly the appreciation rate itself is changing
Source: First American CoreLogic

HOUSE AFFORDABILITY TREND

EXHIBIT 8



Source: First American CoreLogic

After California—which still has eight of the top ten riskiest markets—Florida remains the riskiest state, led by Miami, Fort Lauderdale, and Tampa Bay. The riskiest markets in the remainder of the country include the formerly booming cities of Las Vegas, Phoenix, Washington, D.C., and now the greater Detroit area—where negative equity is high and unemployment is well above the national average. Markets experiencing the most dramatically increasing risk include Honolulu (primarily due to house price depreciation), Youngstown OH-PA, Syracuse NY, and Buffalo NY, which is not yet considered high risk but moving quickly in that direction (due to house price stagnation and economic conditions). At the other end of the spectrum, low-risk markets include Charlotte, Raleigh, and Louisville (with barely decreasing or actually appreciating house prices).



TOP 10 HIGHEST RISK AMONG LARGEST 100 MARKETS

EXHIBIT 9

Of the 100 largest U.S. MSAs (out of 381), the following ten markets are at highest risk:

MARKET NAME	CURRENT ¹ RANK	PRIOR QUARTER ² RANK	CMRI INDEX	FORECLOSURE INDEX	FRAUD RISK INDEX	HOUSE PRICE ³ APPRECIATION
1. Riverside-San Bernardino-Ontario, CA	1	1	4.57	1.63	1.14	-27.8%
2. Los Angeles-Long Beach-Glendale, CA	2	2	3.83	1.07	0.65	-28.6%
3. Phoenix-Mesa-Scottsdale, AZ	3	6	2.54	1.85	0.45	-23.6%
4. Sacramento--Arden-Arcade--Roseville, CA	4	3	2.49	2.92	1.24	-28.4%
5. Miami-Miami Beach-Kendall, FL	5	4	2.45	0.40	1.22	-26.6%
6. San Diego-Carlsbad-San Marcos, CA	6	7	2.42	4.63	0.89	-24.4%
7. Oakland-Fremont-Hayward, CA	7	5	2.39	7.16	0.84	-28.4%
8. Stockton, CA	8	9	2.28	7.00	1.32	-28.5%
9. Santa Ana-Anaheim-Irvine, CA	9	8	2.18	2.81	0.40	-21.6%
10. Bakersfield, CA	12	17	2.08	0.87	1.44	-26.7%

Source: First American CoreLogic

TOP 10 LOWEST RISK AMONG LARGEST 100 MARKETS

Of the 100 largest U.S. MSAs (out of 381), the following ten markets are at lowest risk:

MARKET NAME	CURRENT ¹ RANK	PRIOR QUARTER ² RANK	CMRI INDEX	FORECLOSURE INDEX	FRAUD RISK INDEX	HOUSE PRICE ³ APPRECIATION
1. Louisville/Jefferson County, KY-IN	303	303	1.03	0.38	0.57	2.8%
2. Cleveland-Elyria-Mentor, OH	316	227	1.01	0.27	3.01	-8.1%
3. Charlotte-Gastonia-Concord, NC-SC	319	306	1.01	0.33	1.33	-1.7%
4. Columbus, OH	321	272	1.01	0.24	2.46	-1.8%
5. Wichita, KS	323	309	1.00	1.06	0.59	2.5%
6. Austin-Round Rock, TX	325	308	1.00	0.75	0.61	4.0%
7. Little Rock-North Little Rock-Conway, AR	335	310	0.97	0.75	1.55	0.8%
8. Gary, IN	345	345	0.95	0.38	0.20	1.1%
9. McAllen-Edinburg-Mission, TX	357	351	0.90	0.76	0.67	-0.1%
10. Raleigh-Cary, NC	371	358	0.85	0.32	0.91	1.5%

NOTES: ¹Current rank within all 381 U.S. MSAs—lower number compared to prior quarter indicates increased riskiness.

²Prior quarter's rank within all 381 U.S. MSAs.

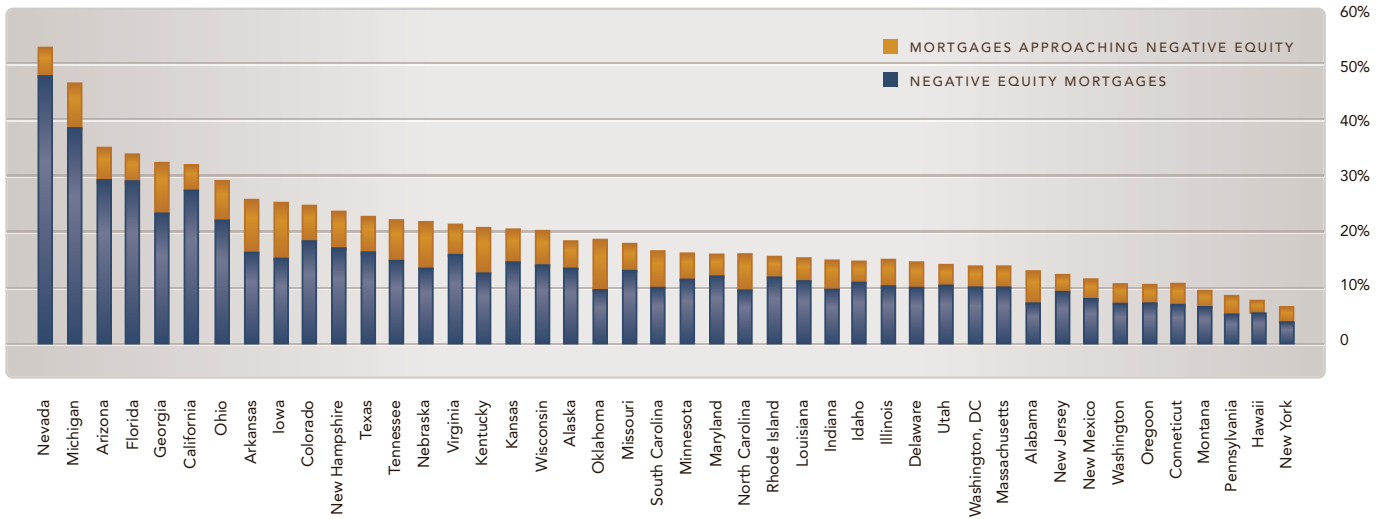
³Year-over-year house price appreciation data from LoanPerformance HPI—negative change in risk rank from previous quarter indicates decreasing riskiness.

Source: First American CoreLogic

NEGATIVE EQUITY ANALYSIS

In order to explore the extent of the negative equity problem facing the US market today, we analyzed all single-family residential properties in the US with active mortgages. These data cover nearly 45-million mortgaged properties—currently accounting for more than 85% of all mortgages in the United States—and were created at the zip code-level, then aggregated to state and national levels. In order to capture true levels of mortgage debt outstanding, mortgage debt outstanding (MDO) included both first and junior mortgage liens. Equity for each property was determined by subtracting the property's AVM-estimated current value from the mortgage debt outstanding. If the mortgage debt was greater, the property was considered in negative equity. Only data for mortgaged residential properties with AVM values are included—although several states' public records include very thin AVM or mortgage coverage, such states account for fewer than 5% of the total US population. MDO data were not adjusted for amortization—since the majority of mortgages had been originated within the past five years and differences between original and current mortgage debts outstanding were small.

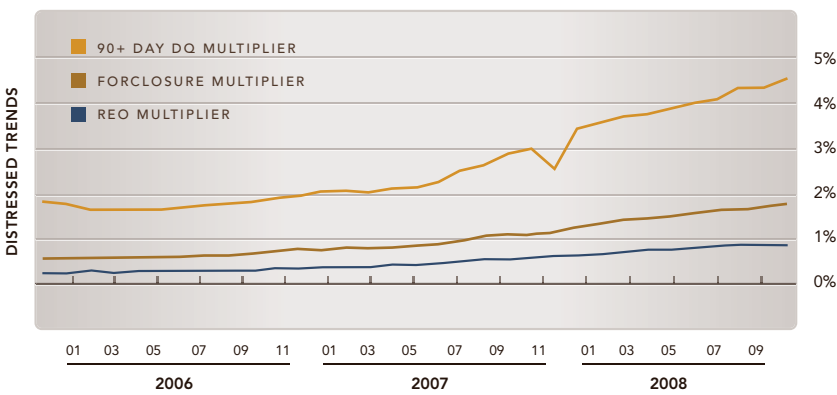




Source: First American CoreLogic

U.S. DISTRESSED ASSET TRENDS

EXHIBIT 11



Source: First American CoreLogic

Over 7.5 million mortgages or 18% of all properties with a mortgage were in a negative equity position as of October 2008. An additional 2.1 million mortgages—defined as mortgages within 5% of being in negative equity—were approaching negative equity status. Negative equity and near-negative equity mortgages combined account for over 23% of all properties with a mortgage. High negative equity distribution is heavily skewed to a small number of states: Nevada and Michigan were by far the two with the highest percentages of negative equity. Nevada led the nation with an estimated 48% with Michigan second at 39%. Five other states had negative equity of at least 22%: Florida (29%), Arizona (29%), California (27%), Georgia (23%), and Ohio (22%).

ABOUT THE MONITOR

The 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 for financially disruptive and costly economic consequences for consumers, their local community, and mortgage financiers. The CMRM tracks this risk in more than 380 metropolitan markets across the United States representing more than 89 percent of the U.S. population. For more information about the Core Mortgage Risk Monitor, contact Dr. Mark Fleming, First American CoreLogic, at m Fleming@facorelogic.com.

ABOUT FIRST AMERICAN CORELOGIC: First American CoreLogic, a First American Company (NYSE: FAF) was formed through the merger of First American Real Estate Solutions, America's largest provider of advanced property and ownership information, analytics and services, with CoreLogic Systems, the leading provider of residential mortgage risk management and fraud protection technology and services. The combined companies' databases cover more than 3,000 counties, representing 99.1 percent of the United States population. With more than 600,000 users nationwide, First American CoreLogic products are used by businesses to improve customer acquisition and retention, detect and prevent fraud, improve mortgage transaction cycle time and cost efficiency, measure the value of residential and commercial properties, identify real estate trends and neighborhood characteristics, track market performance and increase market share.

