



MONTHLY MARKET MONITOR

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MMM 01-08

SHARON L. STARK, 202.906.6567
BARBARA F. BUCKLEY 202.906.6286
OFFICE OF THE SENIOR DEPUTY DIRECTOR

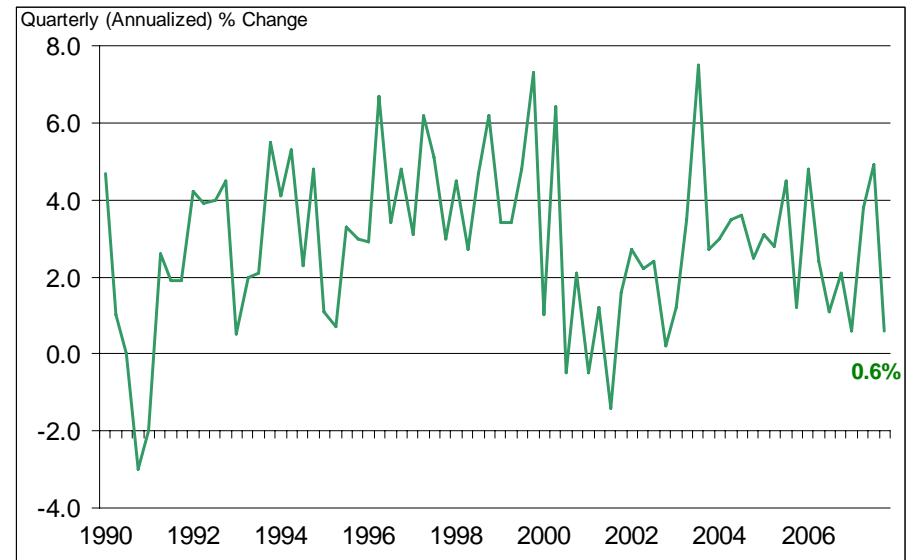


ECONOMIC & MARKET CONDITIONS

U.S. economic growth slowed sharply in the last quarter of 2007 as evidenced by the scant 0.6 percent output rate reported by the Bureau of Economic Analysis (chart 1). A surprising \$3.4 billion decline in real inventories subtracted 1.3 percent from fourth quarter growth, while a 23.9 percent plunge in residential investment took away an additional 1.2 percent from the overall output rate. The consumer managed to increase spending by 2.0 percent and that, coupled with a narrowing in the trade deficit, added approximately 1.48 percent to fourth quarter GDP. Also contributing was a 7.5 percent increase in business spending as companies increased investment in both structures and equipment, and software. A weak quarter end resulted in a 2.5 percent increase in GDP for the year 2007.

While U.S. auto producers pared inventories at the end of 2007, it was the downturn in the U.S. housing market that did the most harm to overall growth. From its peak two years ago, new and existing home sales fell by roughly 30 percent, housing starts were down nearly 40 percent, and the average price of a home, as reported by S&P/Case-Schiller®, declined by more than 8 percent. The woes in the housing market appear to have spilled over to the broader economy, causing the nation's unemployment rate to rise from 4.7 percent to 5.00 percent in 2007 and consumer spending growth to slow from a 4.0 percent pace to a more moderate 2.0 percent rate in the fourth quarter of 2007.

GDP (GROSS DOMESTIC PRODUCT), DECEMBER 2007 (CHART 1)

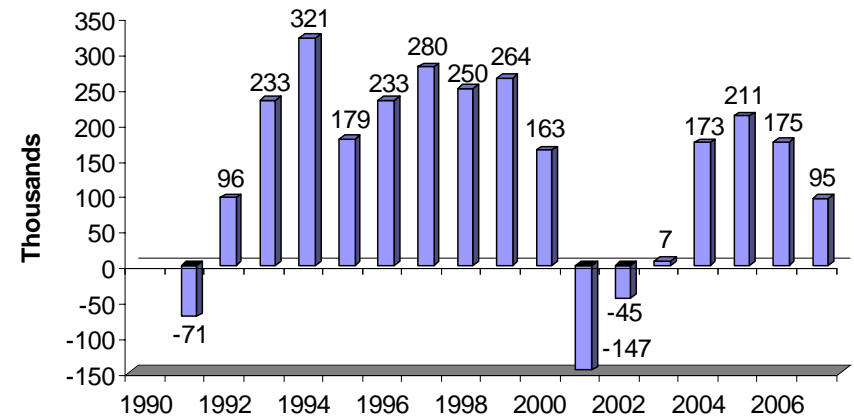


SOURCE: BUREAU OF ECONOMIC ANALYSIS

RISING UNEMPLOYMENT

The New Year is off to a poor start for job seekers as the Labor Department reported a 17,000 loss of nonfarm jobs in January. This was the worst monthly performance in more than four years. While November and December payroll changes were revised upward, the average monthly increase in jobs was 95,000 in 2007 compared with 175,000 in 2006 (chart 2). Generally, a monthly growth rate of 150,000 nonfarm jobs is presumed to provide a stable employment environment. Perhaps most startling was the 1.38 million people unemployed for more than six months in January. The last time the number was this large was shortly after the 2001 recession in the U.S. The dramatic slowdown in job creation caused the U.S. unemployment rate to jump to 4.9 percent in January 2008 from 4.6 percent in January 2007. Average hourly earnings ended the year 2007 at a 3.7 percent growth rate, less than the 4.0 percent average in the prior quarter. These reports took a toll on Americans as the sentiment among job seekers, as reported by the Conference Board, worsened compared with a year ago with more respondents noting that jobs are less plentiful and more difficult to obtain.

ANNUAL AVERAGE CHANGE IN NONFARM PAYROLLS, AS OF DECEMBER 2007 (CHART 2)



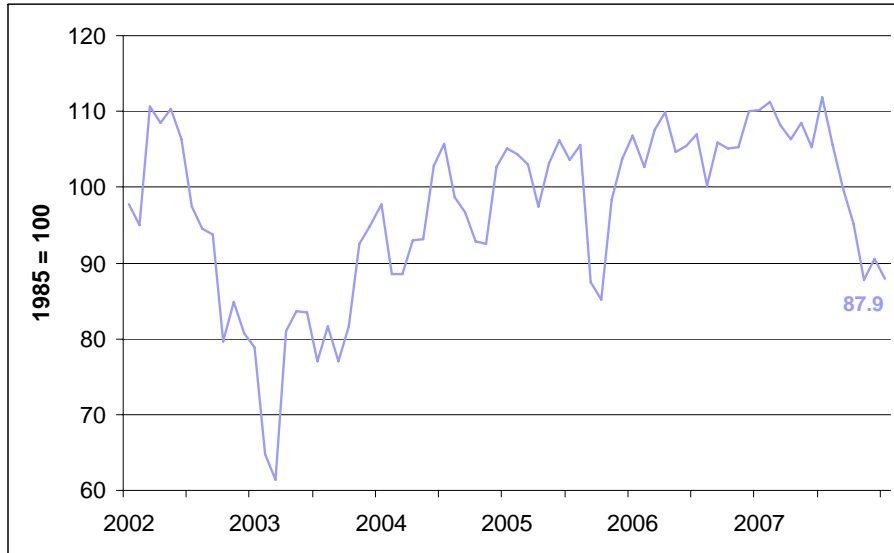
SOURCE: BUREAU OF LABOR STATISTICS

CONSUMER SLOWDOWN?

Despite the weakness in employment, consumer spending growth remained positive. As of December 2007, personal consumption expenditures advanced at an annual rate of 2.2 percent, slower than the 3.3 percent pace recorded earlier in the year. Projections for further pullbacks in consumption are predicated on disappointing holiday shopping revenues reported by major retailers as sales, excluding gasoline and autos, rose a disappointing 0.4 percent in December. The absence of home equity, stock market gains, and rising incomes to supplement current disposable income may cause the consumer to reduce future spending. Consumer sentiment, as surveyed by the Conference Board, foretells a difficult spring shopping season. The index on consumer confidence fell to 87.9 in January 2008, a significant decline from the 110.2 reading the previous year (see chart 3). Respondents were also less enthused about their current financial situation as evidenced by an 18.6 point drop in the sub-index, and expectations about future

economic conditions also soured, with that reading falling more than 20 points. Many have forecast a drop in consumer confidence and spending, thus it will be interesting to see if the consumer can overcome this recent group of obstacles.

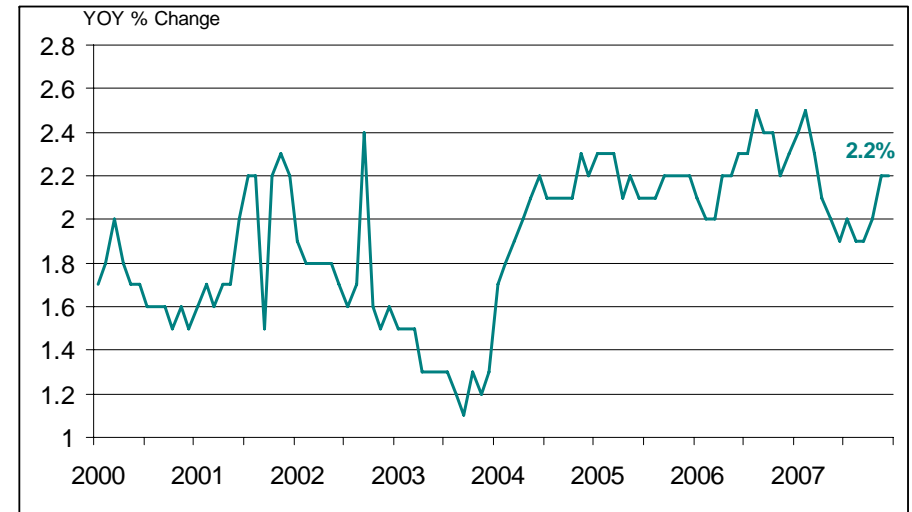
CONSUMER CONFIDENCE INDEX, AS OF JANUARY 2008 (CHART 3)



SOURCE: CONFERENCE BOARD

Concern about economic growth overshadowed rising inflation pressure. The core personal consumption expenditure price deflator (core PCE deflator) rose steadily in 2007 and appears to have reached a plateau at a 2.2 percent pace in December 2007 (chart 4). The increase from a low of 1.9 percent in June does not appear to be significant; however, the full impact of soaring food and gasoline prices puts the overall PCE deflator at a 3.5 percent increase as of the end of 2007. Anecdotal evidence suggests the rising cost to heat a home and put fuel in autos may contribute to a further deceleration in the consumer spending.

CORE PERSONAL CONSUMPTION EXPENDITURES PRICE DEFLATOR, AS OF DECEMBER 2007 (CHART 4)



SOURCE: BUREAU OF ECONOMIC ANALYSIS

The Federal Open Market Committee (FOMC) acted quickly in January to loosen credit conditions when it reduced the target fed funds rate by a total of 125 basis points (bps) to 3.0 percent. The two rate cuts marked the most abrupt easing of monetary policy by the FOMC since the early 1980s. Credit markets applauded the rate reductions, resulting in a steeper yield curve, and lower Treasury rates. Since the end of 2007, the yield differential between the 2- and 10-year Treasury notes has widened by 55 bps to 152 bps. The yield on the 2-year note fell by 98 bps to 2.07 percent and the 10-year now stands at 3.59 percent (chart 5). In spite of the efforts of policy makers to instill greater confidence in the credit markets, fear of further write downs by holders of mortgage assets continued to leave short-term borrowing rates (overnight to one month) higher than those in longer maturities. One week and one month LIBOR rates currently stand at roughly 3.148 and 3.141 percent, respectively.¹

¹ Bloomberg L.P. close of business pricing as of 2/1/2008.



While the ability of consumers to maintain the current pace of spending growth is questionable, solid profits among non-financial companies, lower borrowing costs, and demand from overseas investors bode well for business spending in the U.S. A significant impediment to growth is tight credit conditions. Financial institutions have imposed stricter lending criteria and the capital markets now levy a higher borrowing

premium for less than top rated companies. Entities that are able and willing to extend credit in this environment may find good demand from creditworthy borrowers that otherwise sought more traditional sources of funding. Tight credit conditions are just one of the headwinds facing the U.S. economy, but a considerable one to overcome in order for economic growth to regain momentum.

(CHART 5 & CHART 6)

Current Interest Rates

| | 2/1/2008 | 12/31/2007 | bp |
|----------------------|----------|------------|--------|
| | Yield | Yield | change |
| Short-term | | | |
| Federal Funds Target | 3.00% | 4.25% | -125 |
| Prime Rate | 6.00% | 7.25% | -125 |
| Libor (3-mo.) | 3.10% | 4.70% | -160 |
| 3-mo. T-bill | 2.08% | 3.24% | -116 |
| 6-mo. T-bill | 2.13% | 3.39% | -126 |
| 2yr T-note | 2.07% | 3.05% | -98 |
| Longer-term | | | |
| 5yr T-note | 2.74% | 3.44% | -70 |
| 10yr T-note | 3.59% | 4.02% | -43 |
| 30yr Bond | 4.31% | 4.45% | -14 |

Source: BLOOMBERG L.P. close of business pricing as of 2/1/2008

Interest Rate Swap Spreads

| | 2/1/2008 | 12/31/2007 | bp |
|------|----------|------------|--------|
| | bp | bp | change |
| 2yr | 74 | 75 | -1 |
| 5yr | 75 | 73 | 2 |
| 10yr | 63 | 64 | -1 |
| 30yr | 46 | 57 | -11 |

Source: BLOOMBERG L.P. close of business pricing as of 2/1/2008

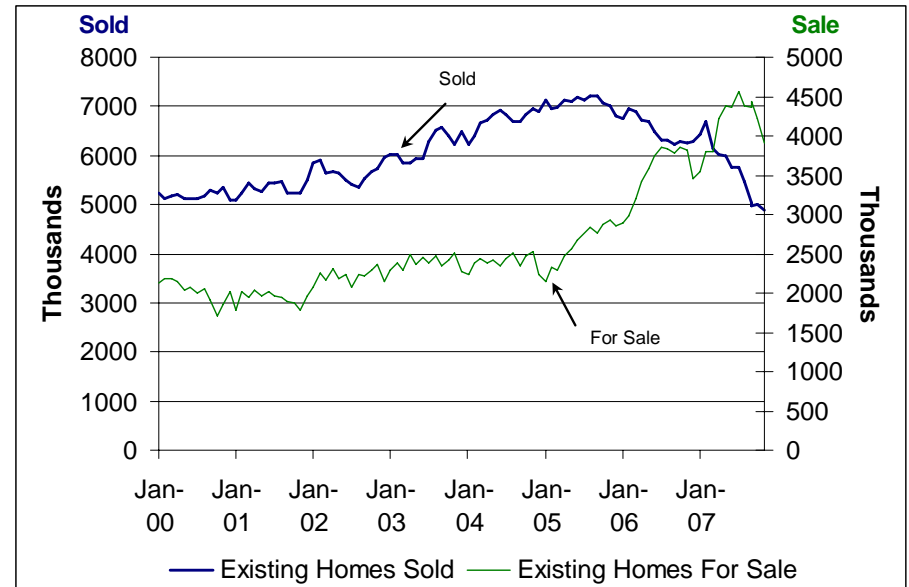
HOUSING CONDITIONS

HOME SALES

The U.S. housing market slump worsened in the past two months. According to the Commerce Department, purchases of new homes fell to a 12-year low of 604,000 units in December. For 2007, sales were down 26 percent, the worst sales decline since recordkeeping began in 1963. Prices of new homes remained under pressure, falling 10 percent from a year ago to \$219,000, the largest decline in 17 years. The number of homes for sale fell to 495,000 in December, but given the current sales pace, it would take 9.6 months to sell these homes---the longest period in over 20 years. Geographically, sales declined in all but the Northeast, which registered a slight gain in December. The December volume of new home sales is near the average rate that prevailed in the mid-1990s, which may be considered a sustainable pace.

Sales of existing homes, which account for 85 percent of all home sales in the U.S., fell 22 percent from a year ago in December to 4.89 million units, the largest yearly slump in more than a decade (chart 7)². Inventory levels remained elevated with approximately 3.9 million homes available for sale, or 9.2 months of inventory. The price of an existing home fell 1.8% in 2007, the first decline in 40 years. Sales fell in all regions led by a 3.3 percent drop in multi-family followed by a 2 percent decline in single-family homes. The current pace of home sales and large number of available new and existing dwellings suggest lower prices in the near term.

EXISTING HOME SALES & INVENTORY, AS OF DECEMBER 2007 (CHART 7)



SOURCE: NATIONAL ASSOCIATION OF REALTORS

HOME PRICES

Home prices weakened across the country, according the S&P/Case Shiller® Home Price Index (HPI).³ The index of existing home prices in 10 U.S. cities fell for the eleventh consecutive month in November 2007, for a year-over-year decline of 8.4 percent, a record low (chart 8). The largest decline prior to November was a year-over-year 6.3 percent recorded in April 1991. Miami, Florida continues to have the weakest price performance, falling 15.1 percent on an annualized basis, followed by San Diego at 13.4 percent and Las Vegas at 13.2 percent. Only three metro areas in the index, Charlotte, Portland, and Seattle experienced year-over-year price gains as of November.

² National Association of Realtors

³ S&P/Case-Shiller press release January 29, 2008.

MORTGAGE ORIGINATIONS AND LOAN PERFORMANCE

While home sales slowed, mortgage originations (including 1-4 family and multifamily) continued to rise by 8 percent from a year ago in the third quarter to \$185.7 billion, but were notably down from the \$194.6 billion reported in the prior quarter. Thrifts accounted for roughly 30 percent of total 1-4 family loan originations in quarter ended September 2007, a 21.5 percent increase from a year ago, and a 25 percent advance from the previous quarter. An estimated 13 percent of thrift mortgage originations were ARMs, down significantly from 26 percent in the third quarter of 2006.

Thrifts hold slightly more than half of their assets in mortgage related instruments. One-to four-family mortgage loans constitute 50.7 percent of industry assets in the third quarter, lower than the 54.6 percent of a year ago. Of these loans, 7.1 percent are home equity lines of credit, a large increase from the 6.0 percent recorded in the third quarter of 2006, and 61.69 percent were ARMS.

The impacts of a weak housing market are beginning to surface on thrift balance sheets. Loan loss provisions increased to 0.92 percent of average assets in OTS regulated thrifts in the third quarter. This represents a significant 0.22 percent advance from the third quarter of a year ago and a 0.38 percent gain from the previous quarter. The additions to loss provisions reflected the increase in noncurrent loans as a result of the deteriorating performance of loans originated in the past three years.

The performance trend for residential loans is discouraging. November 2007 data from LoanPerformance show marked increases in delinquencies among ARM, Alt-A and subprime loans from the previous month and year. Foreclosure rates displayed similar behavior (chart 9). The bulk of the 2/28 and 3/27 ARM loans originated in 2005 have experienced the first rate reset and servicers are likely to have less volume over the next three months. However, there are 1.5 million loans

scheduled for rate resets in 2008, with many option ARMS approaching the first reset and potentially resulting in further increases in delinquencies.

(CHART 9)

| | Nov-07 | Nov-06 | bp change |
|-----------------------|---------------|---------------|------------------|
| National Fixed | | | |
| DQ | 3.33% | 2.68% | 65 |
| FC | 0.48% | 0.30% | 18 |
| ARM | | | |
| DQ | 7.06% | 4.89% | 217 |
| FC | 2.49% | 1.13% | 136 |
| Prime | | | |
| DQ | 3.14% | 2.31% | 83 |
| FC | 0.51% | 0.25% | 26 |
| Alt-A | | | |
| DQ | 12.64% | 9.68% | 296 |
| FC | 3.36% | 1.80% | 156 |
| SubPrime | | | |
| DQ | 19.98% | 13.16% | 682 |
| FC | 7.65% | 3.34% | 431 |

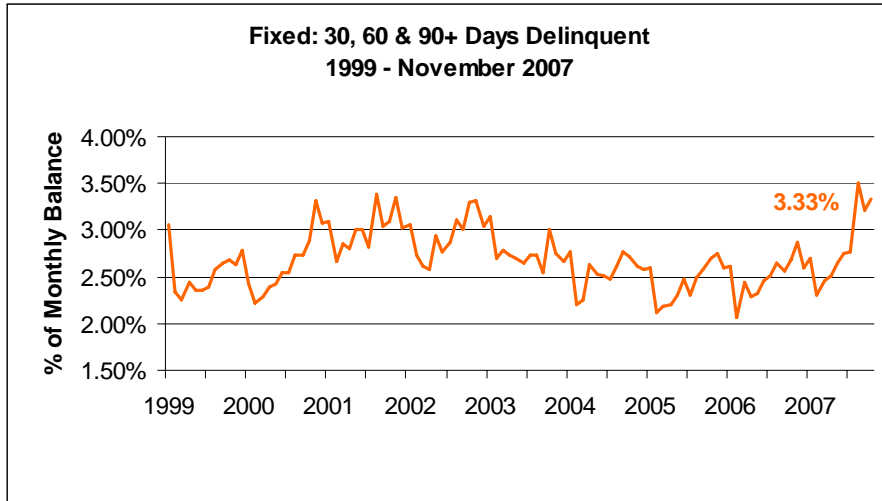
Source: Loan Performance
 DQ - Delinquencies as a percent of loans outstanding
 FC - Foreclosures as a percent of loans outstanding

S&P/CASE-SHILLER® HOME PRICE INDICES, AS OF NOVEMBER 2007 (CHART 8)

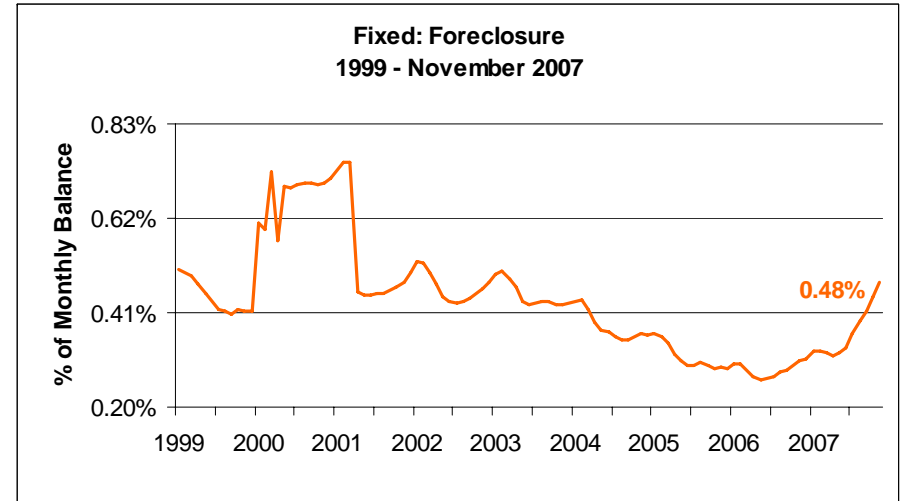
| | November 2007 | November 2006 | October 2007 | Year/Year %Change | Month/Month %Change |
|------------------|----------------------|----------------------|---------------------|------------------------------|--------------------------------|
| West | | | | | |
| Denver | 133.36 | 137.65 | 136.08 | -3.1 | -2.00 |
| Las Vegas | 201.95 | 232.56 | 208.68 | -13.2 | -3.23 |
| Los Angeles | 240.43 | 273.05 | 249.50 | -11.9 | -3.64 |
| Phoenix - AZ | 194.45 | 223.13 | 200.72 | -12.9 | -3.12 |
| Portland - OR | 183.65 | 181.34 | 185.10 | 1.3 | -0.78 |
| San Diego | 209.60 | 242.11 | 217.02 | -13.4 | -3.42 |
| San Francisco | 195.49 | 213.84 | 202.03 | -8.6 | -3.24 |
| Seattle - WA | 187.14 | 183.88 | 189.86 | 1.8 | -1.43 |
| Midwest | | | | | |
| Dallas - TX | 122.38 | 123.86 | 124.44 | -1.2 | -1.66 |
| Minneapolis - MN | 158.57 | 168.84 | 161.24 | -6.1 | -1.66 |
| Central | | | | | |
| Chicago | 161.61 | 168.18 | 163.12 | -3.9 | -0.93 |
| Cleveland - OH | 113.29 | 120.30 | 115.93 | -5.8 | -2.28 |
| Detroit - MI | 105.24 | 120.94 | 108.15 | -13.0 | -2.69 |
| Northeast | | | | | |
| Boston | 167.40 | 172.60 | 169.34 | -3.0 | -1.15 |
| New York | 203.88 | 214.24 | 205.48 | -4.8 | -0.78 |
| Southeast | | | | | |
| Atlanta - GA | 131.46 | 134.18 | 133.79 | -2.0 | -1.74 |
| Charlotte - NC | 132.68 | 128.94 | 133.98 | 2.9 | -0.97 |
| Miami | 237.99 | 280.30 | 244.35 | -15.1 | -2.60 |
| Tampa - FL | 203.45 | 232.86 | 206.38 | -12.6 | -1.42 |
| Washington, DC | 223.45 | 242.28 | 226.71 | -7.8 | -1.44 |
| Composite | 205.09 | 223.94 | 209.68 | -8.4 | -2.19 |
| Composite-20 | 188.82 | 204.65 | 192.89 | -7.7 | -2.11 |

SOURCE: S&P/CASE-SHILLER®

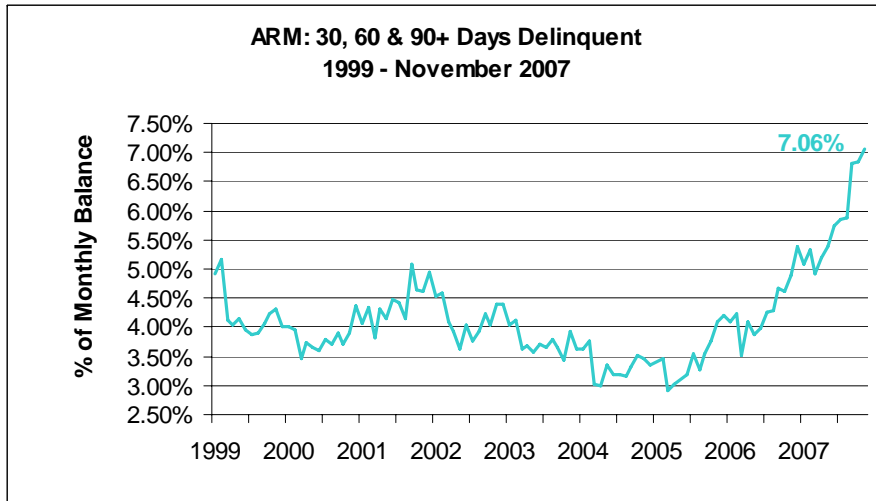
NATIONAL DELINQUENCY & FORECLOSURE RATES: FIXED & ARM LOANS
(CHART 10)



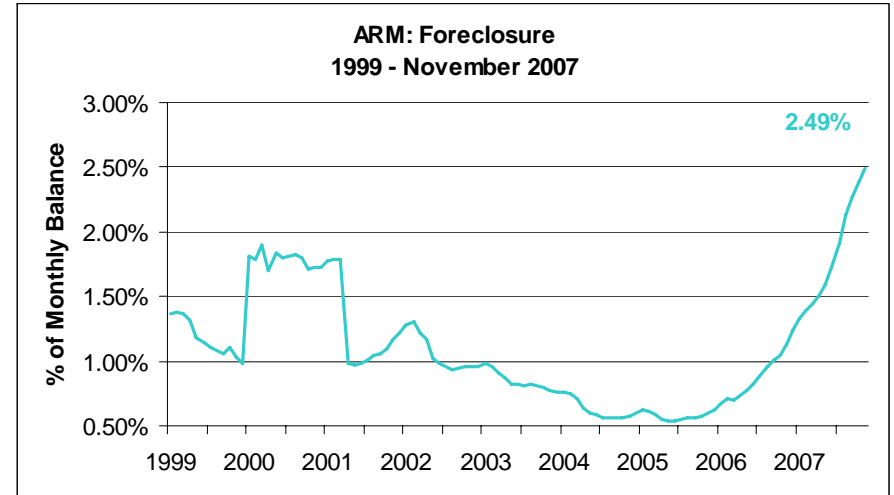
(CHART 11)



(CHART 12)



(CHART 13)

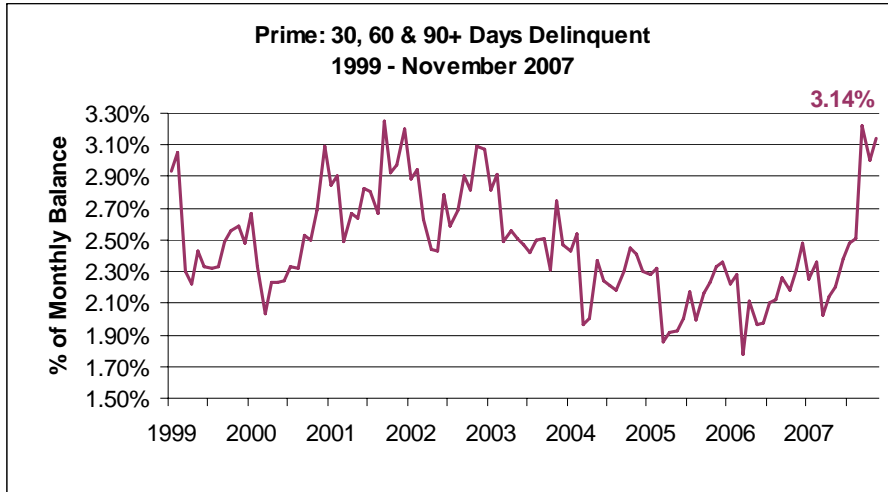


SOURCE: CHARTS 9 AND 10-19 LOAN PERFORMANCE, A SUBSIDIARY OF FIRST AMERICAN REAL ESTATE SOLUTIONS (FARES)

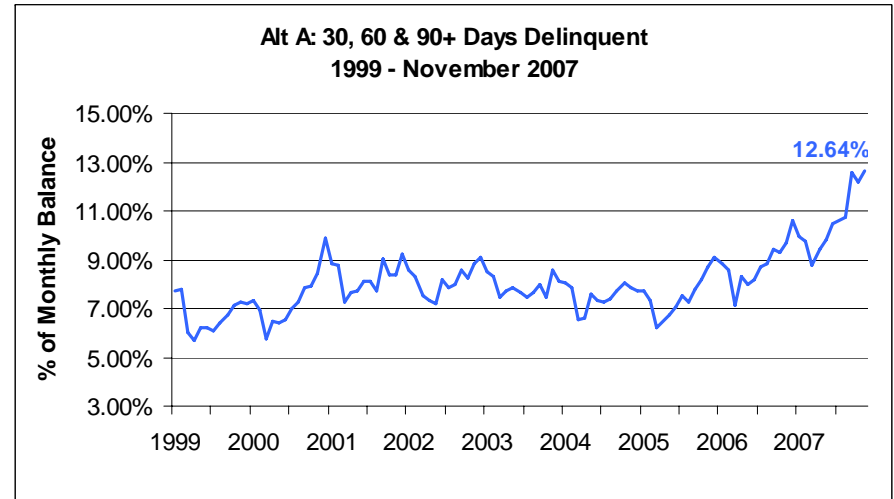
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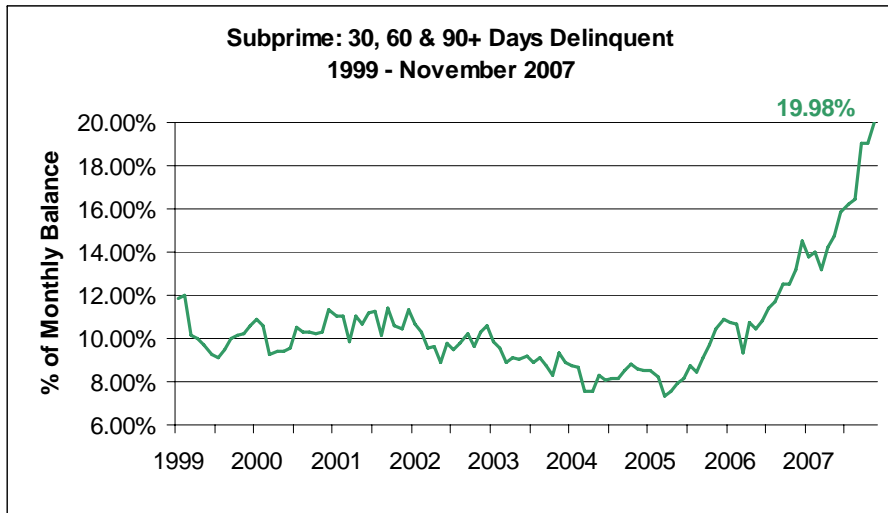
NATIONAL DELINQUENCY RATES: PRIME, ALT-A & SUBPRIME LOANS (CHART 14)



(CHART 15)



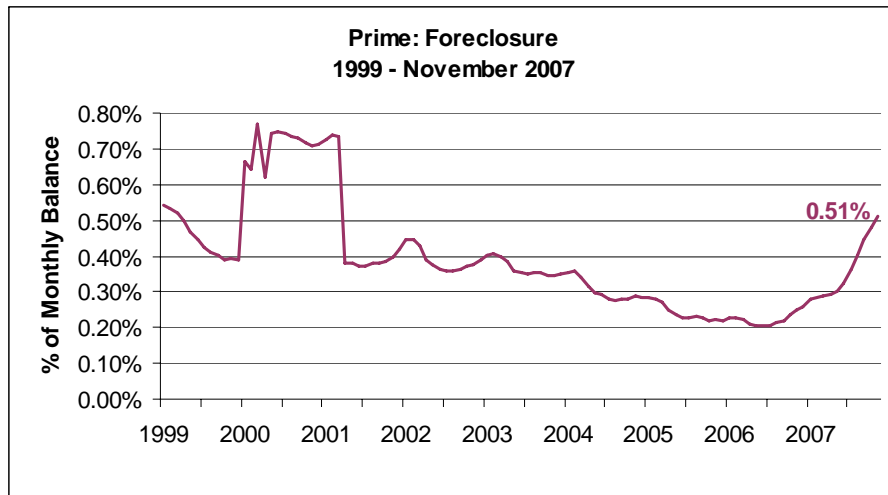
(CHART 16)



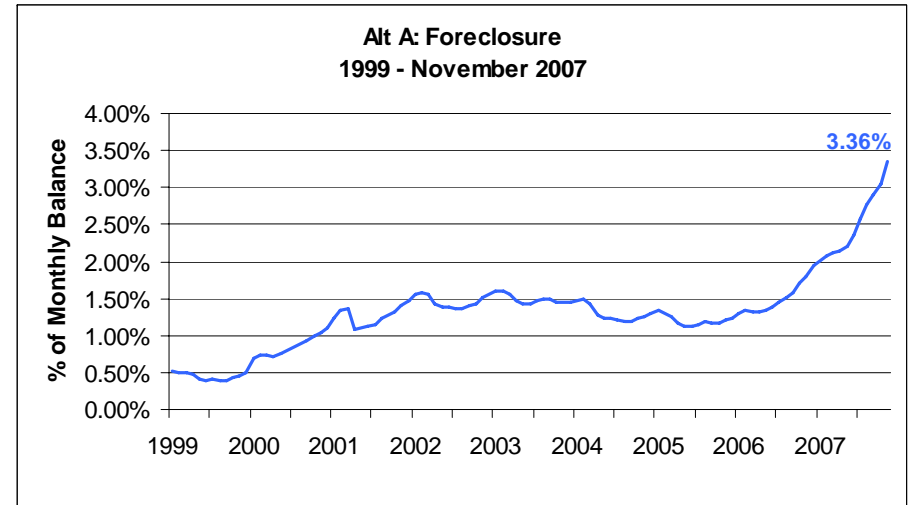
SOURCE: CHARTS 9 AND 10-19 LOANPERFORMANCE, A SUBSIDIARY OF FIRST AMERICAN REAL ESTATE SOLUTIONS (FARES)

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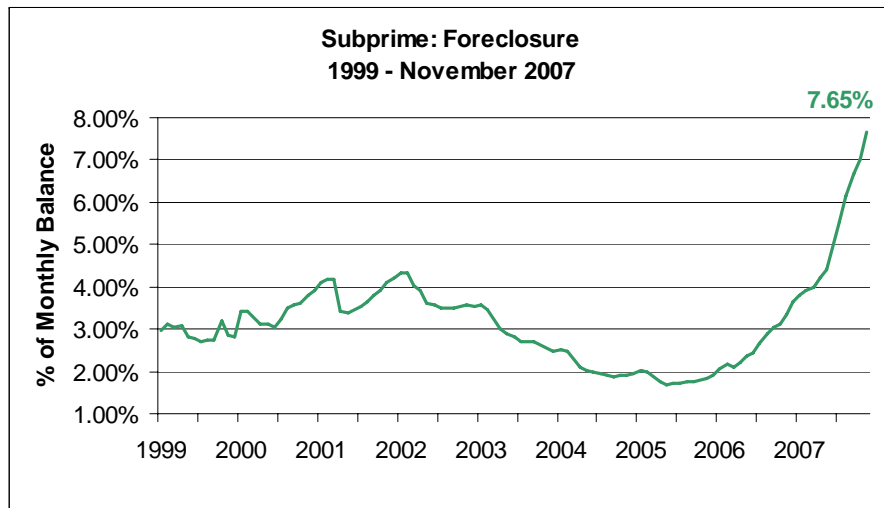
NATIONAL FORECLOSURE RATES: PRIME, ALT-A & SUBPRIME LOANS
(CHART 17)



(CHART 18)



(CHART 19)



SOURCE: CHARTS 9 AND 10-19 LOAN PERFORMANCE, A SUBSIDIARY OF FIRST AMERICAN REAL ESTATE SOLUTIONS (FARES)

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