FNC Residential Price Index Market Update

July Home Prices Moved Lower, Eluding a Sustained Housing Recovery

Oxford, Miss (September 15, 2010) - The FNC Residential Price Index, the leading hedonic price index built on the industry's most comprehensive database that combines public records and proprietary appraisals on residential properties across the United States, shows that home prices in July slipped into negative growth, declining approximately 1.0% from June. As the market's most timely and accurate measure of home price trends, the index confirms that much of the weakening in home prices can be attributed to the withdrawal of the homebuyer tax credit. It is also reflective of a slowing economic recovery driven by continued weakness in the labor market and household spending.

The July home price decline came just three months after the homebuyer tax credit expired. In March, just one month before the April deadline of qualifying for tax credit and for the first time since the housing market crashed in summer 2007, home prices began to turn up with positive growth that continued for three consecutive months. Rising at a rate of 1% from February, March registered the largest price increase. Subsequent price increases grew weaker before retreating into the negative territory in July by nearly 1%. The FNC 10-MSA composite index indicated that home prices in the top 10 U.S. housing markets firmed up more steadily during the period and gained half a percentage point in July.[1]

FNC Residential Price Index: Recent Month-to-Month Change

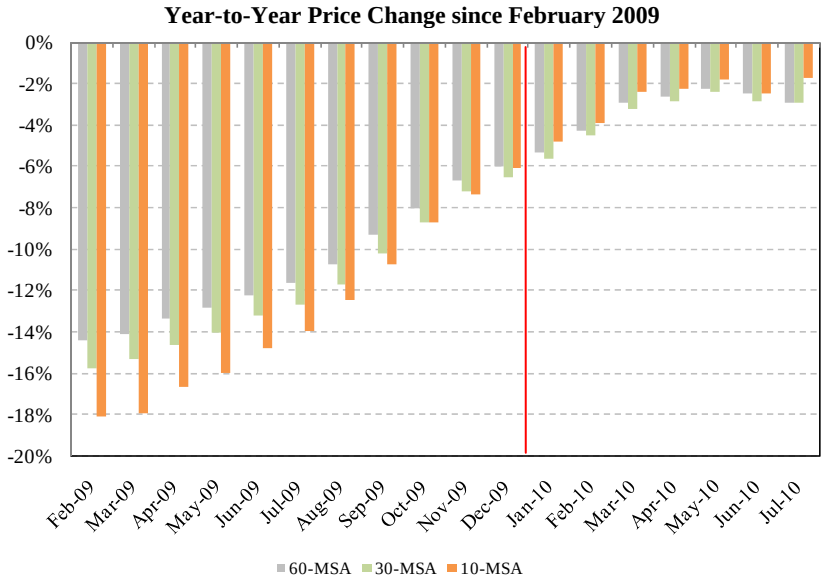
FNC RPI Composites	July 10 (vs. Jun 10)	June 10 (vs. May 10)	May 10 (vs. Apr 10)	April 10 (vs. Mar 10)	March 10 (vs. Feb 10)
60-MSA Composite	(0.9%)	0.1%	0.5%	0.3%	1.0%
30-MSA Composite	(0.6%)	0.1%	0.5%	0.2%	0.9%
20-MSA Composite	(0.5%)	0.3%	0.4%	0.4%	0.8%
10-MSA Composite	0.5%	0.3%	0.4%	0.2%	0.7%

On a year-to-year basis, home prices in major U.S. cities continued to move lower at a rate of approximately 3%. Recent year-to-year price declines showed little sign of improvement after a period of rapid deceleration which began in February 2009. There were modest deteriorations in June and July in the two broad composites' year-to-year price changes.

FNC Residential Price Index: Recent Year-to-Year Change

[1] The housing markets tracked by the FNC 10-MSA and 20-MSA Composite Residential Price Indices are same as those included in the S&P/Case-Shiller 10-City and 20-City Composite Home Price Indices. Please refer to *http://fncresidentialpriceindex.com/default.aspx* for a list of the MSAs included in each composite index.

FNC RPI Composites	July 10 (vs. Jul 09)	June 10 (vs. Jun 09)	May 10 (vs. May 09)	April 10 (vs. Apr 09)	March 10 (vs. Mar 09)
60-MSA Composite	(2.9%)	(2.5%)	(2.3%)	(2.6%)	(3.0%)
30-MSA Composite	(2.9%)	(2.9%)	(2.4%)	(2.8%)	(3.2%)
20-MSA Composite	(2.7%)	(2.8%)	(2.4%)	(2.8%)	(3.2%)
10-MSA Composite	(1.7%)	(2.5%)	(1.8%)	(2.2%)	(2.4%)

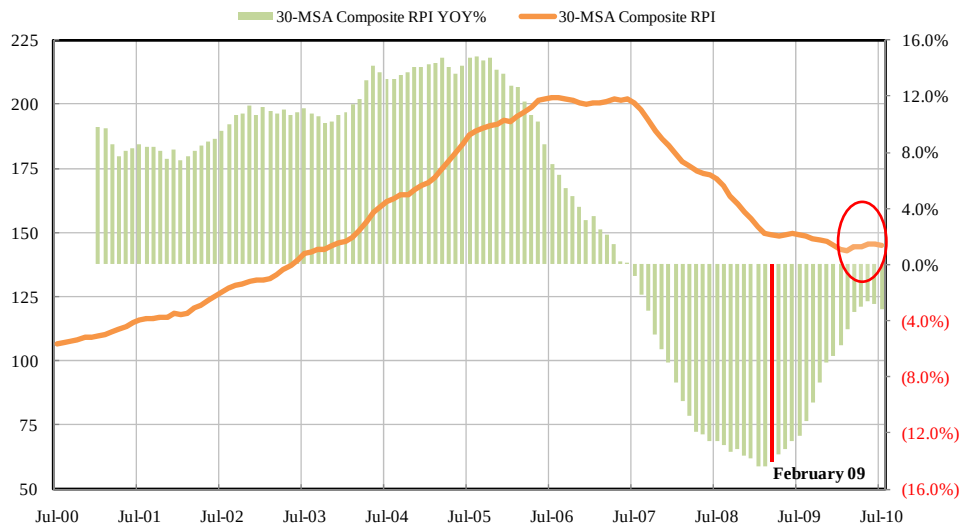


Meanwhile the country's top 10 housing markets showed slower rates of price declines than the broader market. As late as December 2009 after the housing downturn began, home prices in the top 10 housing markets dropped more rapidly than the national average. However, the trend was recently reversed and beginning in January 2010, these markets experienced slower year-over-year price declines, a sign of an improved price environment relative to the national market.

In contrast to the repeat-sales-based price index, which recently reported a modest year-to-year price increase from June 2009, the FNC Residential Price Index - which captures both new and existing home sales and has the advantage of real-time appraisal data that provides more timely sales information - showed that home prices in June and July continued to fall below their 2009 levels.[2] Home prices seemed to have weakly bottomed out in February as prices gradually firmed up under the homebuyer tax credit. Cumulative price increase from February to July was measured at 2.2% for the 10-MSA market and 1.3% for the 30-MSA market.

[2] Similarly, Federal Housing Finance Agency's House Price Index showed continued, modest year-over-year declines in U.S. home prices as late as June 2010.

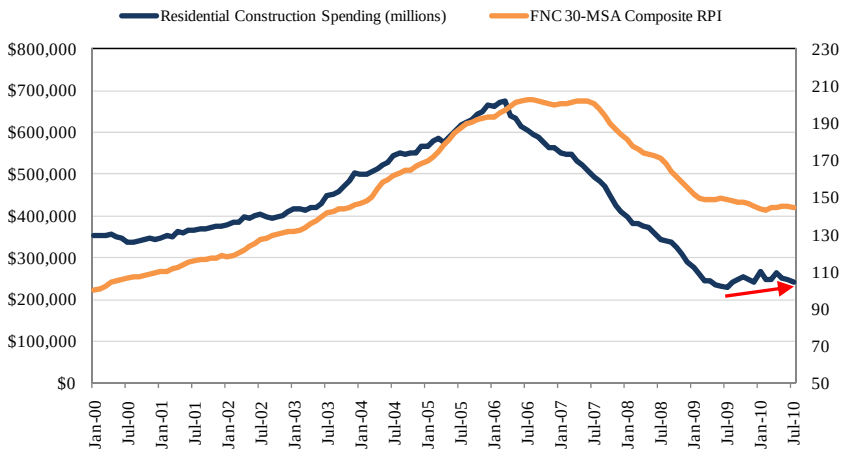
FNC 30-MSA Composite Residential Price Index

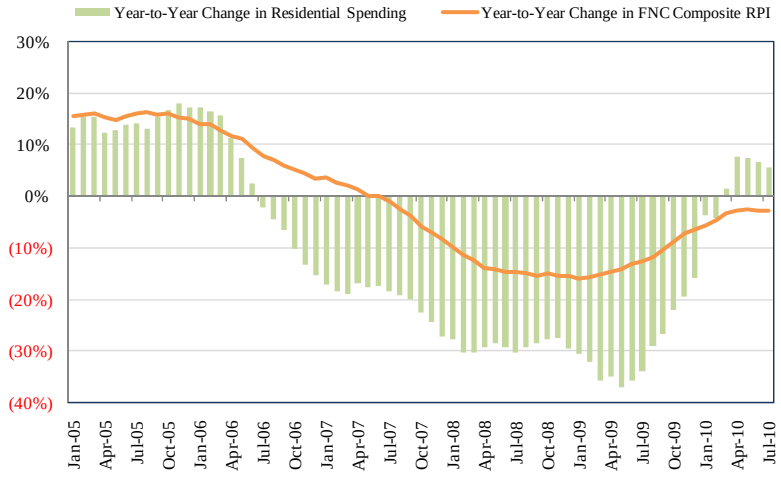


Going Forward, Price Stabilization Expected but Continued Rebound Remains A Challenge

According to the FNC Residential Price Index, home prices have improved recently rising month to month since March and showing signs of stabilization in year-to-year price declines. The improvements were primarily driven by the homebuyer tax credit, however. New and existing home sales have since dropped rapidly following its April expiration. Falling existing home sales will likely weigh on home prices as unsold inventory builds up. Declining new home sales, on the other hand, could have implications far beyond the housing sector through a direct impact on residential construction spending, which is often viewed as one of the most important leading economic indicators. Although recent new home sales numbers are less than encouraging, the trends in residential construction spending in the last 15 months are on the mend, offering encouraging signs of a stabilizing housing market.

Most notably, residential investment spending has been on a soft rebound from its cyclical low since the mid-2009 and recent year-to-year changes in residential construction spending showed signs of modest growth. The withdrawal of the homebuyer tax credit caused residential construction spending growth to level off only slightly. Year-to-year growth over the last five months averaged a robust 5.8%. Meanwhile, the price index followed closely the residential construction spending with the latter generally leading the price index by two to three months. In light of a strong correlation (0.92) in the year-to-year growth of the two economic indicators, a continued stabilization in home prices is expected.



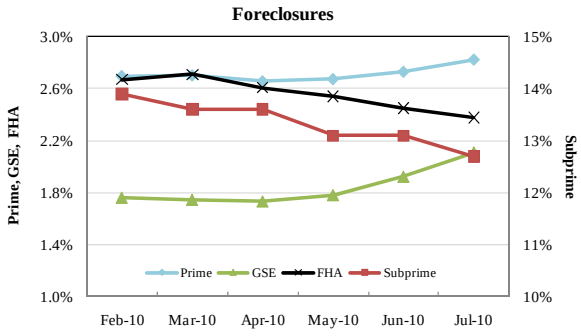


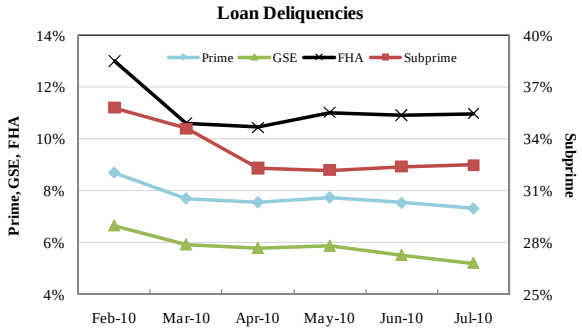
Recent Year-to-Year Change in Residential Contruction Spending

July 10	June 10	May 10	April 10	March 10
vs. Jul 09	vs. Jun 09	vs. May 09	vs. Apr 09	vs. Mar 09
5.5%	6.7%	7.4%	7.7%	1.6%

A continued positive price rebound, however, remains challenged. A rising inventory of unsold homes will certainly contribute to price deterioration in existing home sales. Secondly, the housing market remains unduly distressed under the weight of foreclosures and loan delinquencies. The prospect of a modest near-term price lifting is thus poor. Loan-level data shows that foreclosure and loan delinquency rates remained high despite government and lenders' efforts in loan modifications and debt forgiveness. Foreclosure rates among subprime borrowers, in particular, continue to hover around double digits. And with loan delinquency

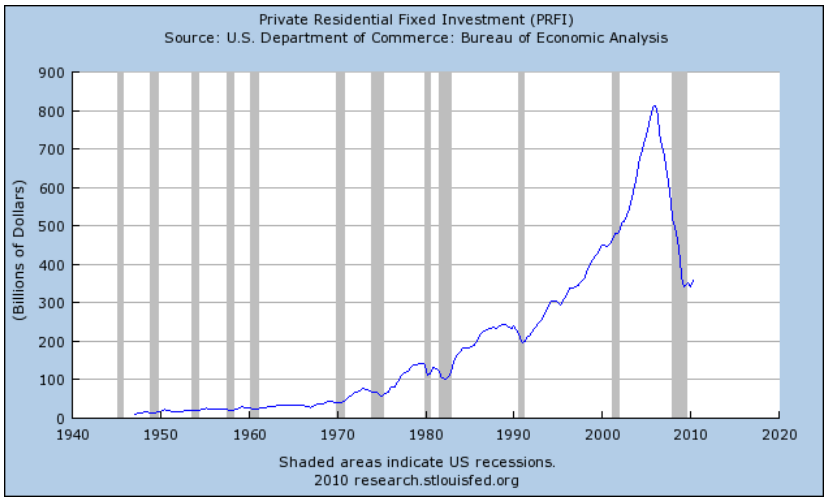
rates in the neighborhood of 32%, one in every three subprime-loan mortgaged homes is likely to become newly foreclosed upon or need a work out.[3]





Data Source: Federal Reserve Bank of New York

In the meantime, the likelihood of a broad economy-led housing recovery is slim. As all signs are pointing to a near-term slowdown in the economy, the housing market is unlikely to receive much support from the current economy. More fundamentally, past recessions and recoveries have shown that a robust housing recovery typically precedes economy recovery. This implies that until the housing market finds a more market-based solution to effectively bring down mounting foreclosures and loan delinquencies, a sustainable housing recovery may well remain elusive.



Source: Federal Reserve Bank of St. Louis Economic Research

[3] The re-default rate among HAMP-modified loans runs high as well. The Department of the Treasury's latest report on the performance of permanent HAMP modifications shows that 60^{+}-day delinquency rate is 16.2% six months after loan modification and 34.5% nine months after modification. *Source: Making Home Affordable Program Reports June 2010 (Revised).*