

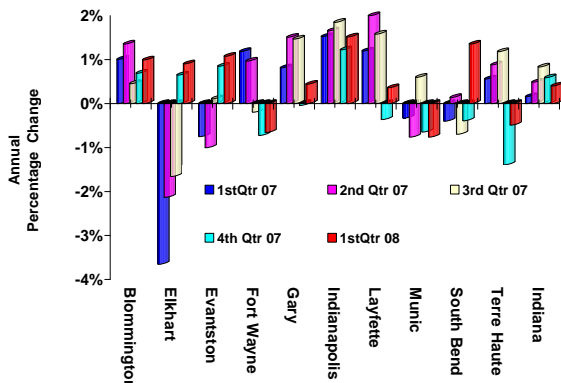
Regional Economic and Mortgage Market Outlook

MARKET-ECONOMICS.COM

Indiana — The state's economy shows moderate increases led by health and educational services.

- Employment growth remains moderate in the first quarter of 2008 — up by 0.4%, compared with 0.2 % growth a year ago. Motor vehicle manufacturing employment is up by 5.8% in 2008, but softness in motor homes and specialty automotive body manufacturing has that down. Manufactured exports has helped to keep Indiana job growth positive. Construction employment remains down by 0.7%.

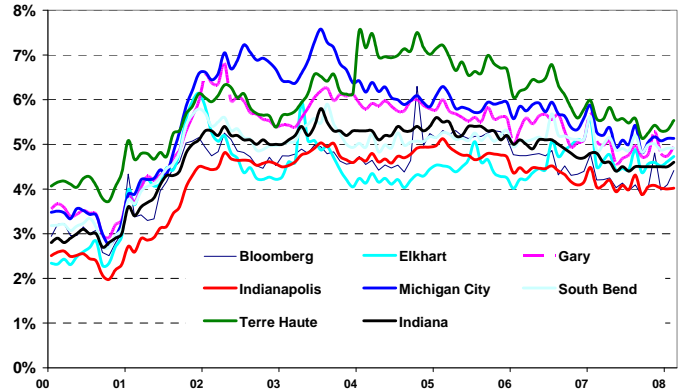
Employment Growth Moderates in the First Quarter 2008



Source: U.S. Department of Labor, 2008

- The positive side remains the services sector up by 1.4 % in the first quarter of 2008. Strong growth in health and educational services followed by business services has countered the declines in financial services barring insurance. As expected real estate related financial services have experienced declines.
- The metropolitan areas have reflected the differentiation in industry concentration of employment growth. Indianapolis led the state with 1.5% employment growth in the first quarter of 2008 compared with 0.2% growth state-wide.
- Growth in health and educational services help boost employment growth — up by 6.2% and 5.8% respectively. Similarly, South Bend employment growth rose by 1.3% in the first quarter of 2008. Employment growth in Evansston was up by 1.1%. In contrast, employment declined in Muncie, down by -0.8 %, followed by Fort Wayne (-0.7%) and Terre Haute (—4%) — all affected by declines in manufacturing.

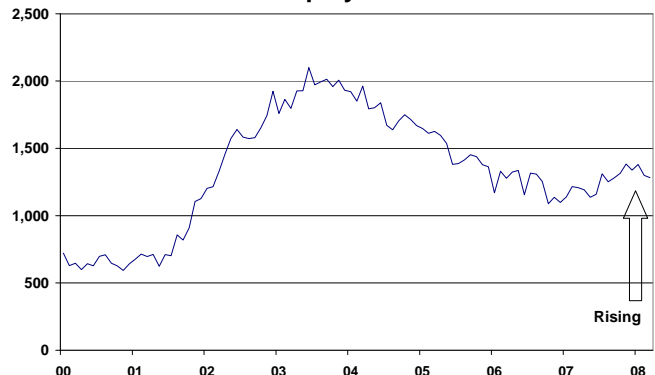
MSA Unemployment Rates Show Uneven



Source: U.S. Department of Labor

- The unemployment rate unevenness remains throughout the state. Kokomo has the highest seasonally adjusted unemployment rate — 6.0 % in the first quarter in 2008. The unemployment rate remain volatile resulting from a series of layoffs from Delphi and Chrysler. Terre Haute follows with an unemployment rate of 5.4% in 2008, resulting from layoffs in the transportation manufacturing industry.

U.S. Number Unemployed for 27 Weeks & over



Source: U.S. Department of Labor, 2008

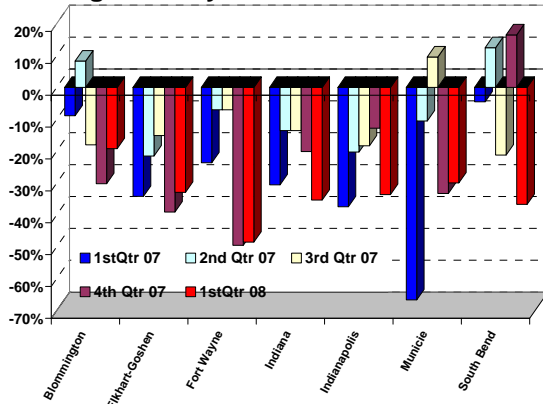
- Duration of unemployment is showing some increase. Those persons who are unemployed for over 27 weeks grew indicating the difficulty in finding work.
- Indications from Indiana Department of Workforce Development that new claims for unemployment in February were up in Gary and Hammond by 17.0%, but down by -9.8% statewide. This suggested a variation across metropolitan areas related to the industry mix.



Indiana housing markets continue to cool

- Indiana new single-family building permits slow further in the first quarter of 2008 — down by -35.5% compared with a year ago. This is the sharpest decline yet in single-family building permit activity on record.

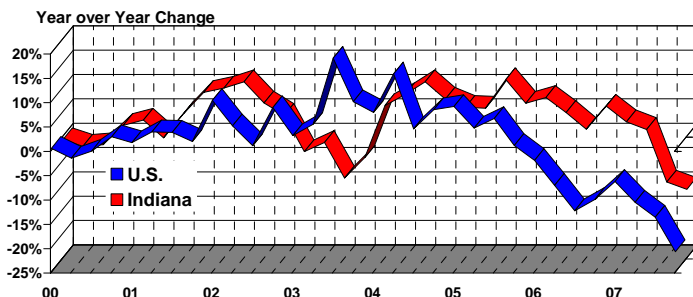
Single-Family Permits Remain Down



Source: U.S. Census, 2008

- Fort Wayne metropolitan area is the hardest hit with a decline of -48.6% in single-family permits in the first quarter of 2008. South Bend metropolitan area follows with a decline of -36.7%. Indianapolis new single-family permits drop by 33.6% and Elkhart-Goshen new construction permits drop by -32.9%. Bloomington shows a more modest decline of -19.2%.
- Multifamily permit activity is positive state-wide — up by 43.6% in the first quarter of 2008. Indianapolis is leading the state in new multifamily permits, nearly tripling the rate from a year ago. More moderate growth in multifamily permit activity is occurring in South Bend and Bloomington — up by 5.8% and 4.8% respectively. Muncie, Elkhart-Goshen, and Fort Wayne are showing a decline in multifamily permits in the first quarter of 2008 — down by 88%, -16%, and 14.3%, respectively.

Existing Home Sales Ease

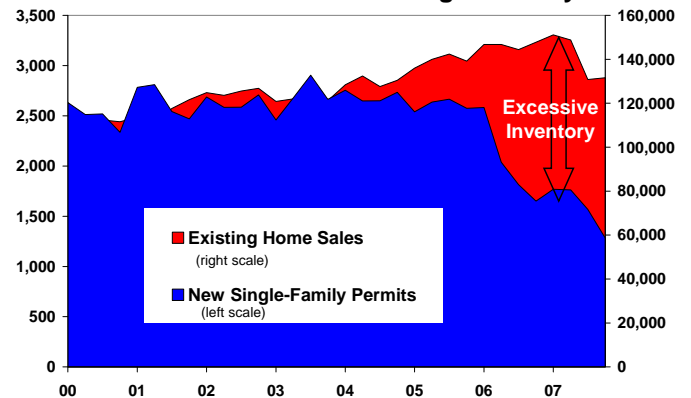


Source: NAR, 2008

- Indiana existing home sales only began to show negative growth in the third quarter of 2007 — down by -9.4% to end the fourth quarter of 2007 down by -10.9%. In contrast, nation-wide existing home sales became negative much earlier (in first quarter of 2006) and by the fourth quarter 2007 is down by -20.8% from a year ago.

- In Northeast Indiana, existing home sales are down by -27% in October 2007 and continue down by -30% in January 2008. Indianapolis metropolitan area home sales are down by -19.8 percent in the fourth quarter of 2007 from a year ago.

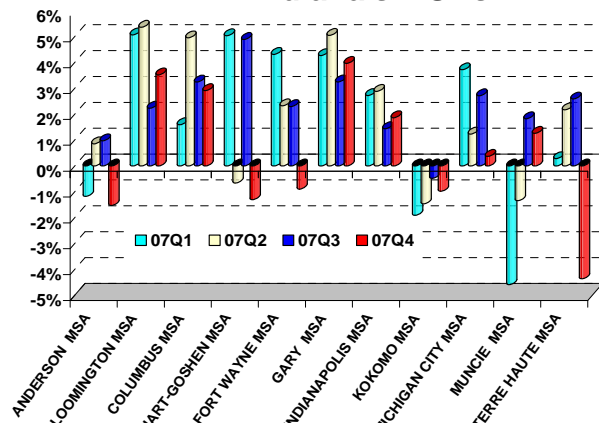
Indiana's Excessive Housing Inventory



Source: US Census Bureau & NAR, 2008

- Excessive housing inventory is showing that existing housing sales is exceeding new single-family permits suggesting that a minimum of eight months is required before the market reaches equilibrium.

Home Price Appreciation Varies Across Indiana's MSAs



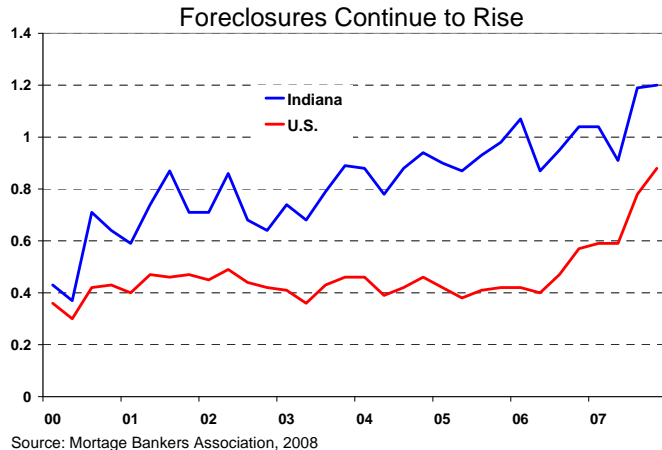
Source: OFHEO, 2008

- Home price appreciation in Indiana remains positive in the fourth quarter of 2007 — up by 1.5% year over year. Gary metropolitan area home price appreciation remains strong



— up by 4.0% in the fourth quarter of 2007 compared with a year ago. Bloomington follows as home price appreciate is up by 3.5% . In contrast, Terre Haute is down by -4.3% in the fourth quarter followed by Anderson, Elkhart-Goshen, Fort Wayne, and Kokomo, down by -1.5%, -1.3%, -1.0%, and -1.0% respectively.

- A snapshot of mortgage purchase loans by Indiana’s major metropolitan areas helps to understand the impact of mortgage foreclosures. In 2000, FHA/VA accounted for 19.6% of purchase mortgages. By 2006, the FHA/VA share increased to 28.5% . Except for the Bloomington metropolitan area, the share of FHA/VA purchased mortgages increased. Bloomington declining share reflected an increase use of non-standard loan products and an overall decline in government mortgage financing..



Source: Mortgage Bankers Association, 2008

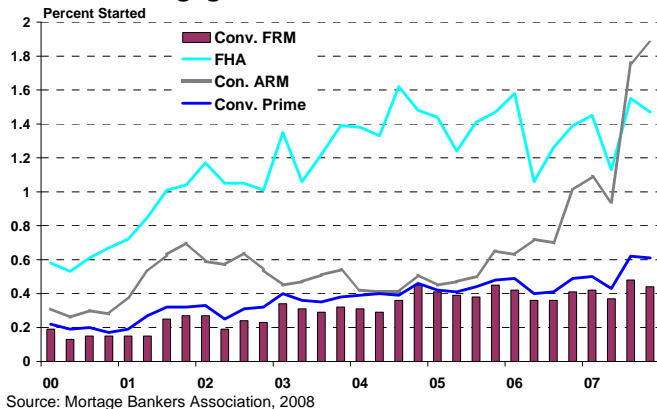
- Mortgage foreclosure rates continue to rise in Indiana. The number of loans entering foreclosure reached 1.2% of all loans in the fourth quarter of 2007. This compares to 0.9% for the nation as a whole.

Purchase Loans
2000 2006

Metropolitan Areas	FHA/VA	Conv.	FHA/VA	Conv.
Bloomington	44.4%	55.6%	10.0%	90.0%
Elkhart-Goshen	14.7%	85.3%	36.3%	63.7%
Fort Wayne	13.4%	86.6%	26.1%	73.9%
Gary	13.7%	86.3%	43.2%	56.8%
Indianapolis	21.4%	78.6%	44.0%	56.0%
Muncie	10.9%	89.1%	11.0%	89.0%
South Bend	18.1%	81.9%	25.9%	74.1%
Terre Haute	19.8%	80.2%	31.5%	68.5%

Source: FDIC HMDA, 2007

Indiana Mortgage Foreclosures Conventional - FHA



Source: Mortgage Bankers Association, 2008

- Indiana foreclosures are rising as conventional adjustable rate mortgages reflect higher interest rate resets which will continue throughout 2008. FHA foreclosure rates are trending downward after peaking 2005. Subprime foreclosures are rising particularly among adjustable rate mortgages.

Outlook—Low Consumer Expectations —Health Care and Exports help dampen declines.

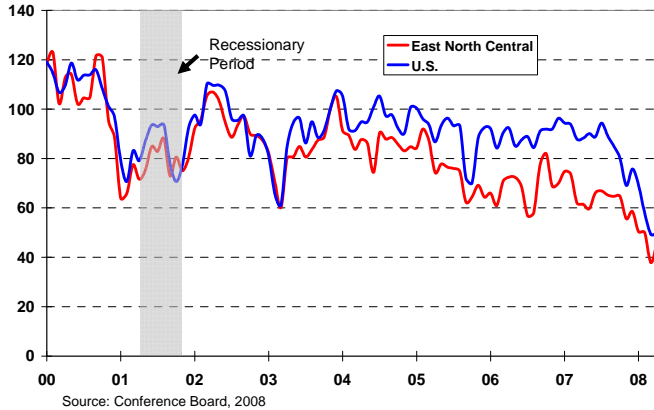
- Overall, employment growth throughout the state remains modest. As the outlook for manufacturing remains cautious as output flattens. Steel production is showing some increases as demand rises for aerospace, energy and defense. In the long term, a decrease in commercial construction is expected to begin in late 2008 and into 2009.
- Employment growth will continue to slow down from 0.5% in 2007 to 0.1% growth by end 2008. It is expected job growth will return in the second quarter of 2009. Metropolitan areas with strong concentration of health and educational services will weather the economic storm, while others in automobile industry will continue to show weakness.
- The unemployment rate will rise in 2008 to hover near 5.1% and stay there until 2009. The transformation of the automobile industry is going to be critical to any major growth in manufacturing. A research and technology innovation race is underway for a new automobile fuel source. This will offer potential employment opportunities



for firms in Indiana.

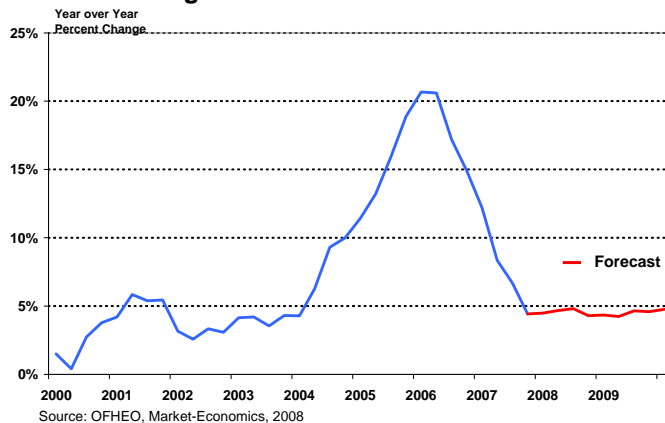
- Consumer expectations continue a precipitous decline, driven by overall sluggish job growth. We find that consumer expectation for the East North Central lags behind Indiana job growth and the change in home prices five to six months. The more recent increases in food and energy prices continue to dampen consumer expectations.

Consumer Expectations Trending Down



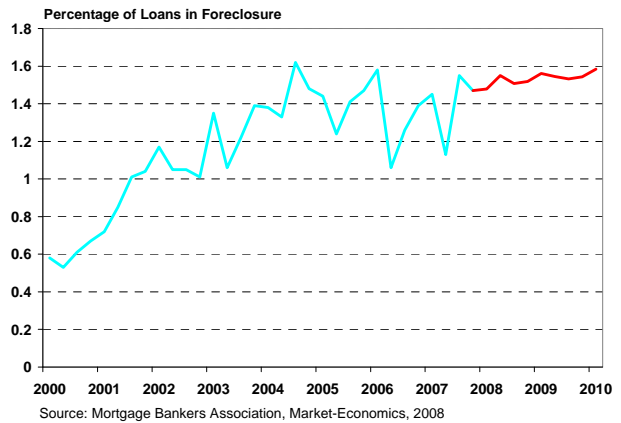
- Home price appreciation year over year will average 4.5% in 2008 and 4.4% in 2009. In 2009, the slowing in home price appreciation reflects the underlying sluggishness of the housing market.

Housing Price Index Returns to Trend 2008



- Overall, foreclosure rates for prime rate mortgages will moderate their rise reflecting the moderation in home price appreciation and existing home sales, but a rise in unemployment. The upside of the forecast lies an increase the subprime ARMs and their resets which may push foreclosures upward above the forecast..

Indiana Foreclosure Rates Moderate



- New residential construction will remain slow as the inventory of both new and existing homes for sale remains at historical highs. We expect little change until the beginning of 2009. Commercial construction, particularly office will continue at a moderate rate. There is concern with over retailing as major retailers consolidate and downsize in line with slower consumer spending.
- The bright side remains the potential for exports with a favorable dollar in foreign markets making Indiana produced goods attractive. Demand will remain strong for the manufacture of aircraft and energy extraction products.
- Agricultural commodity prices are showing some signs of moderation, but the impact of rising crude oil prices and the demand for bio-fuels helps keep prices up.
- The awoken giant is the current price of oil and its future price. This trend is having a profound effect on the economy in how the cost of oil is ultimately linked to economic growth.

Prepared by: Market-Economics, Inc.
 Annapolis, MD
 Dr. Joseph Cater, Chief Economist/President
 May 15, 2008
 Tel: 410-626-1413
 Email: DrCater@Market-Economics.com