# PARKER MORTGAGE & INVESTMENT
## NEWSLETTER
October, 2007

Dear Friends:

With the news media full of stories about the bursting real estate bubble, chaos in the secondary market and the demise of over160 mortgage lenders, with the loss of over 105,000 jobs in the financial services sector, I thought this would be a good time to share some perspectives on your position in the market. Bear in mind that our lender clients range from a retired educator, with one small mortgage to supplement her income, to large trust departments and foundations with hundreds of millions of dollars under management.

As most of you know, I foresaw the current state of affairs over two years ago. It was obvious to experienced hands that the "no doc", "no verification" Alt-A, and sub-prime loans with toxic interest reset provisions were a formula for disaster. Rather than originating loans to be held in their portfolio, banks became conduits, originating and selling loans as packaged securities to hedge funds and institutional investors through Wall Street firms like Bear Sterns. Lulled into complacency by third party bond rating companies, the investors failed to do their homework, and are now suffering the consequences. According to a recent BofA study, 16% of all sub-prime loans are over sixty days delinquent, in foreclosure, or owned by the lenders. Since August 14th, the secondary market for collateralized mortgage obligations and commercial paper has been in disarray, with few buyers.

Without buyers for these junk loan products, dozens of large mortgage originators (who funded loans with lines of credit, for resale as stated above), have vanished from the scene. Those that remain have returned to the basic principal of lending to borrowers based upon their verified ability to make the payments and a real down payment. As a result, far fewer people will be able to qualify for a refinance of their Alt-A and sub-prime loans, which will be resetting (from their teaser rates to market), with payments increasing by 30% to 100% over then next eighteen months. Many of these borrowers will be forced to sell into an already declining market, further depressing prices. Many analysts believe, as do I, that prices will continue to fall into the first quarter of 2009, and then stay flat for five to eight years. The easy credit that fueled the housing bubble will not return to refloat the market. Home values will be derived from what buyers can actually afford to pay.

By now you are probably asking yourselves, "How does all this bad news relate to me, my loans and Parker Mortgage?" I will address these in reverse order.

First, Parker Mortgage is doing very well. We are currently servicing about 130 loans for your accounts, with an aggregate value in excess of $40,000,000. All but one of these loans is paid current. The "black sheep" loan is less than 42% of a recent appraisal, prepared by a bank who is refinancing the property. We were very busy during the first eight months of this year. Most of our lenders are fully invested, which is good, because the past month has seen no acceptable loan inquiries. I would estimate that our overall servicing portfolio has a aggregate loan to value ratio of well under 50% of current market value.

Over the coming months institutional lending sources will over react in their underwriting, as they tend to do during times of change. They will become methodical box checkers and slaves to guidelines that may not be germane to a specific transaction. As a direct result, we will be seeing many excellent opportunities for low loan to value transactions in the coming months. By concentrating upon the traditional three C's of lending: collateral, capacity and character, we will continue to find and fund quality loans. We are private lenders (not "hard money" lenders), who compete directly with banks. The majority of our loans are secured by income producing properties with low LTV's. I believe that commercial properties, with increasing capitalization rates, will see declines from 10% to 15% in value, over the next twelve months.

While the Federal Reserve has lowered the discount rate, impacting other short term interest rates, long term yields on ten and thirty year treasury bills, upon which our loans tend to track, will probably increase on inflation fears. Coupled with declining returns on CD and other money market accounts, we will be seeing improved yield spreads over money market funds and inflation on our five year loans.

You have been, and will continue to be successful lenders because we have not lost sight of the three things we have to offer to borrowers and the brokers who refer them to our door: <u>Prompt service</u>, <u>rational underwriting standards,</u> and <u>competitive interest rates</u>. The fact that several of you are former borrowers have become lender clients is testament to the respect Parker Mortgage has earned from our customers. I never forget that Parker Mortgage's outstanding reputation is primarily built upon the understanding, compassion and integrity of the lenders we have the privilege to represent.

Thank you all for the continued opportunity to be in your service. I look forward to hearing your feedback.

Best regards,

Leland E. Parker