

2008 Neighborhood Mortgage Stabilization Program Proposal 'the Riley Plan'

Concept: Create a public /private partnership to provide up to \$475 Billion in 80% first deeds of trust mortgages and federally insured second deeds of trust to 2 million credit worthy homeowners facing reduced incomes and /or lower property valuations that would prohibit traditional refinancing programs.

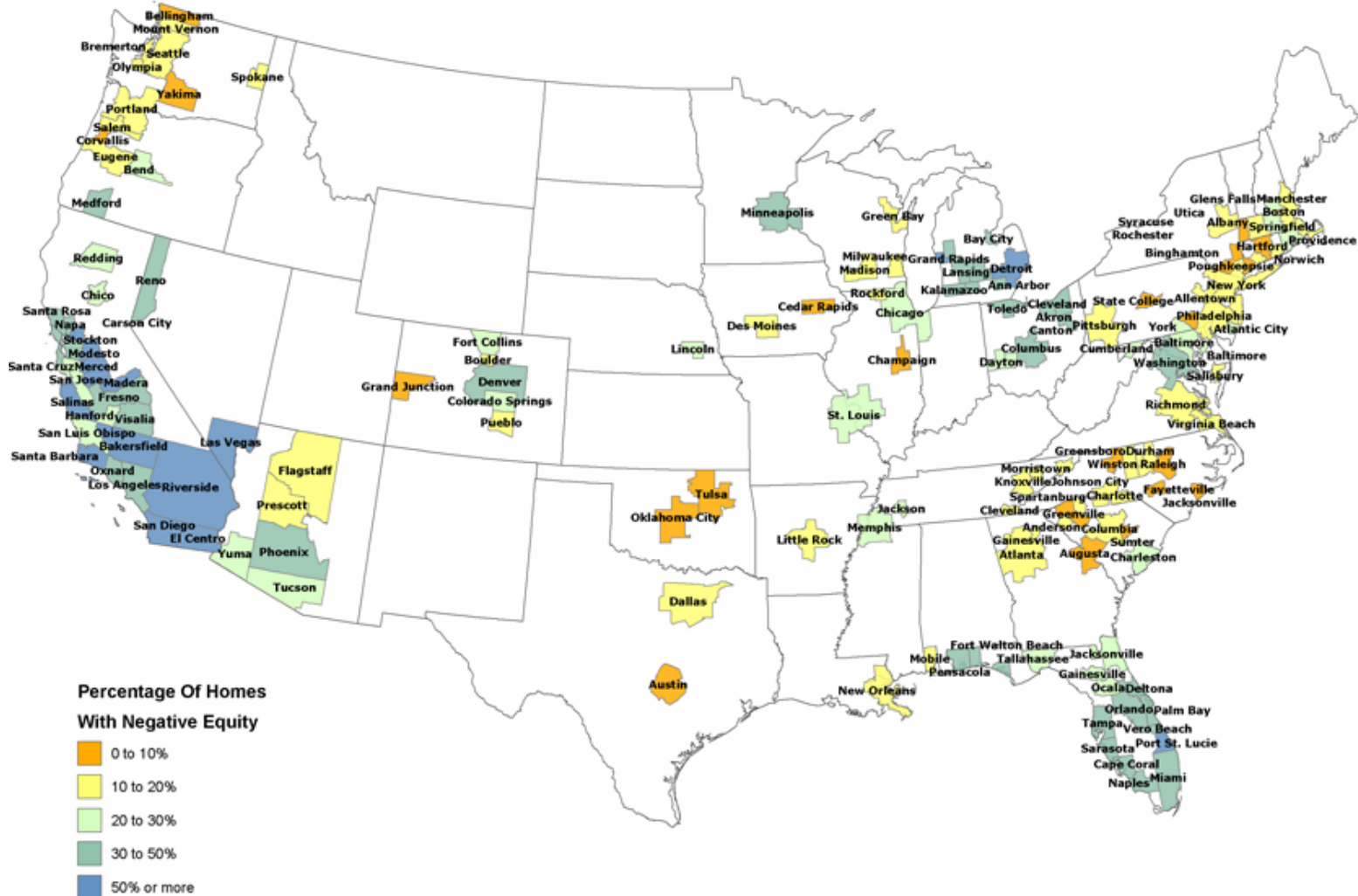
The Human Dimension to the Mortgage Crisis

- **Zillow: 11.7 million owe more on mortgage than home's worth**
- Nearly 11.7 million American households now owe more on their mortgage than their homes are worth, real estate Web site Zillow.com reported today.
- U.S. homes are set to lose well over \$2 trillion in value during 2008, Zillow added. And home values declined 8.4 percent year-over-year during the first three quarters of this year, compared to the same period in 2007.

Zillow VP of data and analytics Stan Humphries, perhaps jokingly, called the bad news a “market correction,” adding that “in general, homeowners in most areas we cover are struggling with foreclosures pouring into the market, large amounts of negative equity and dropping home values. On the positive side, in the third quarter, some markets - particularly those hit hardest in the downturn - showed smaller year-over-year declines than in the prior quarter.

12/15/08

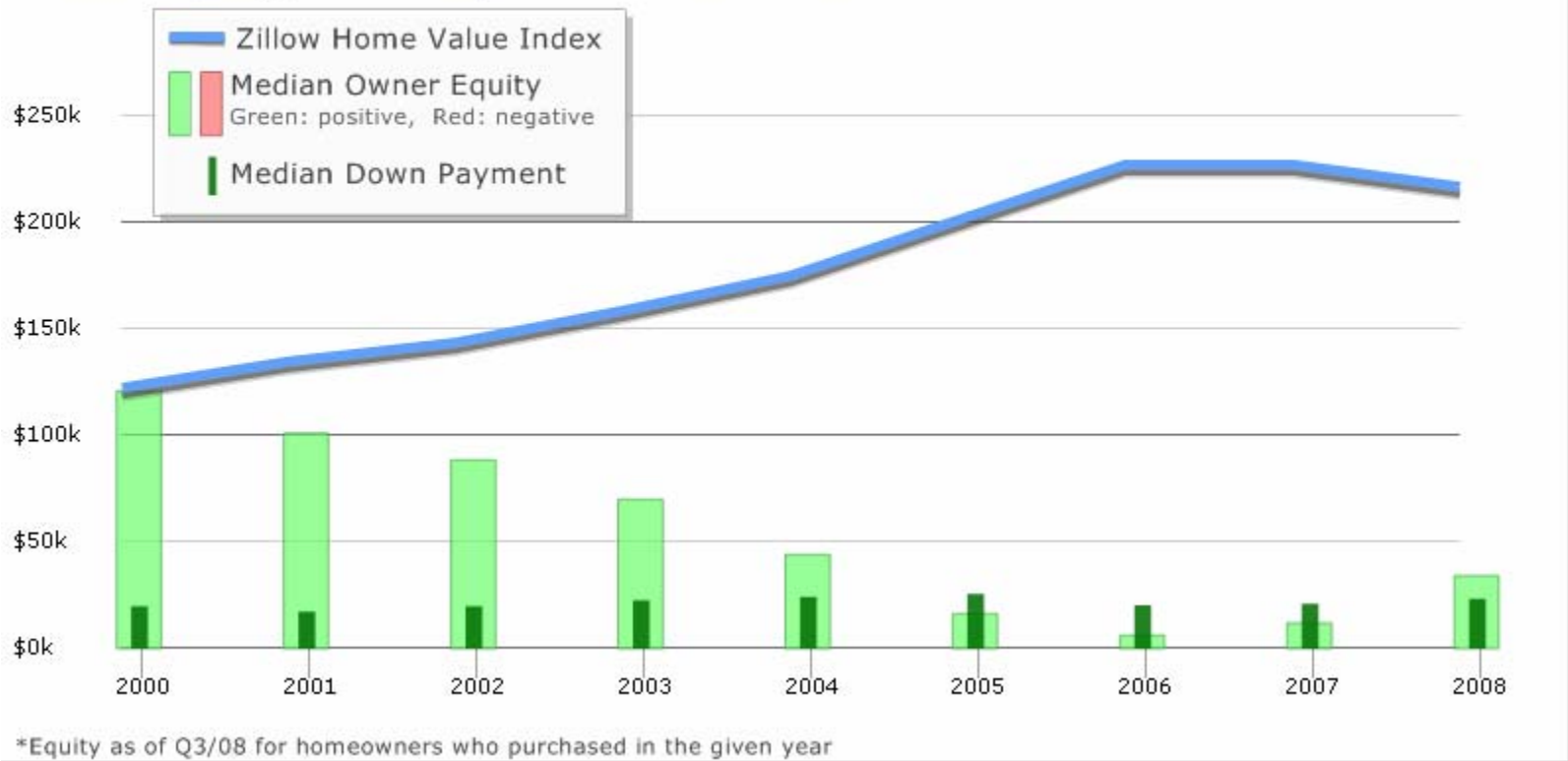
Percentage of homes purchased between 2003 and Q3-2008 with Negative Equity Currently
 Zillow.com® US Home Value Report - Q3 2008



See more data at: <http://www.zillow.com/reports/RealEstateMarketReports.htm>

United States Owner Equity*

Owner Equity, Down Payment & Median Home Value



The Riley Plan target market are those homeowners:

- With good credit and their credit will not be tarnished by participating in the program,
- That have documented income that support revised loan structure,
- That may have temporary financial issues that necessitate liquidation of assets to maintain home,
- That recognize their commitment to honor their debts and,
- Are in danger of slipping into foreclosure.

Program Exclusions

- Mortgages made under fraudulent circumstances.
- Current mortgages where the borrowers can not make current or proposed payments. We will not set up homeowners to fail.
- Combined new loans can not exceed FHA limitations.
- Applicants with poor credit that is not related to a specific financial crisis.

The Riley Plan – Individual

Current Mortgage to Borrower		Proposed – the Riley Plan		
Purchase Price	\$250,000	Current Value	\$200,000	
Amount Financed	95%		80%	
First Mortgage	\$237,500	New 1 st Mortgage	\$160,000	No PMI required
Interest Rate	6%		6%	Use 30 yr Fixed Rate, with 7 yr repricing / call
Monthly P&I	\$1,424		\$959	
		Home Equity	\$77,500	Insured, no prepayment restrictions, 7 yr maturity
		Monthly Payment	\$0	Interest accrued, but deferred until sale or refinance
Monthly / annual Cash Flow Improvement	-0-		\$465 / \$5,580	

The Housing and Economic Recovery Act of 2008 Neighborhood Stabilization Program (NSP) vs. the Riley Plan

- NSP – authorized to assist in the redevelopment of abandoned and foreclosed homes and residential properties.
- Riley Plan – designed to assist credit worthy homeowners, with negative equity, facing the potential to slip into delinquencies/foreclosure.

The Hope for Homeowners Program (HOPE) vs. the Riley Plan

- HOPE

- Maximum Loan to Value of restructured loan is 96.5%.
- Equity sharing with the federal government.
- Write down of principal may occur.
- 3% up front mortgage insurance premium and 1.5% annual premium.

- Riley Plan

- Maximum Loan to Value of restructured loans are 120%.
- No equity sharing.
- No write down.
- 1% set up fee (in addition to traditional non mortgage insurance premium fees) and 1%-3% annual premium only on Home Equity Loan portion.

The Riley Plan – Individual Property Appreciation and Loan Balances

Home Valuations	Reappraised value of home as beginning of Loan	End of Yr 7	1 st Mortgage Balance – yr 7	Equity prior to Home Equity Loan Balance	Home Equity Loan plus accrued Interest	Net Equity
OFHEO House Price Index (4Q92 – 4Q98)	\$200,000	\$246,844	\$143,423	\$103,421	\$112,763	\$(9,342)
5% Annual Appreciation	\$200,000	\$281,420	\$143,423	\$137,997	\$112,763	\$25,234

- OFHEO Model supports maximum 120% LTV.
 - Even with 104% LTV, borrower’s satisfactory repayment for 7 years reflects commitment by borrower and should refinance of loans.
- 5% Annual Appreciation provides 90% LTV for new loan at end of 7 year period.

The Riley Plan – Individual Fees Paid and Potential Individual Savings

- Fees Federal government for participation in program: \$14,000
 - 1st Mortgage: 1% or \$1,600, at inception.
 - Home Equity Loan: 1% or \$775, at inception and \$11,625 over 7 years. The annual Home Equity Loan fees are designed to encourage borrower to pay down loan.
- Potential Individual Savings:
 - Annual and cumulative 7 years difference between existing mortgage and revised payment structure: \$5,580 annually / \$39,060.
 - Savings are unrestricted.
 - Figures do not reflect any interest earned on savings.

The Riley Plan – Global Impact

Proposed – the Riley Plan	Individual	100,000 households	2 Million households
New 1 st Mortgage	\$160,000	\$160,000,000	\$320 billion
Home Equity	\$77,500	\$77,500,000	\$155 billion
1 st Mortgage – Fee (in addition to normal fees)	\$1,600	\$1,600,000	\$3.20 billion
Home Equity –set up fee	\$775	\$775,000	\$1.55 billion
Home Equity – recurring fees	\$11,625	\$11,625,000	\$21.70 billion
Total Fees to Federal Government	\$14,000	\$14,000,000	\$26.45 billion

The Riley Plan – Potential At Risk 2 million loans - \$475 billion

1st Mortgages	80% Loan to Value based on valuation at time new loan is made	
Home Equity Loans	Limited to 120% of new appraised value, less 1st mortgage	
Home Equity Loans – Amount at risk, assuming 100% loss	At end of Yr 1: OFHEO: \$145 Billion 5% Appreciation: \$135 billion	At end of Year 7 OFHEO: \$46.90 billion 5% Appreciation: -\$8.43 billion (net gain)
Using 20% Loss Ratio OFHEO model		At end of Year 7 Losses: \$22.66 billion Add fees collected: \$24.67 billion Net gain: \$2.01 billion
Using 20% Loss Ratio 5% Annual Appreciation model		At end of Year 7 Losses: \$15.63 billion Add fees collected: \$24.67 billion Net gain: \$9.04 billion

Why Community Banks Should Be An Integral Partner

- It's good business to make high quality loans to homeowners for short durations, with attractive yields and federally insured (Home Equity Loans).
- The program stops the downward spiral in real estate values.
- The program creates loans in local communities vs. modifying problem MBS.
- The program will be instrumental in improving community bank performances.

FDIC Insured FIs

The Poorly Performing FIs

Source: FDIC 3rd Quarter FI data

FDIC FIs	Asset Size	% of Total
8,342	All FDIC FIs as of 9/2008	
1,739	ROA YTD -43.57% to -0-	21%
1,458	ROA YTD .01% to .50%	17%

Community Banks are Struggling

Source: FDIC 3rd Quarter FI data

FDIC FIs	Asset Size	% of Total
5,842	0-\$300 MM in Assets, excluding 251 FIs that opened in 2007 and 2008 Combined \$664 Billion in Assets	
1,050	ROA YTD -43.57% to -0-	18%
1,032	ROA YTD .01% to .50%	18%

Selected Ratios

UBPR Peer Group Data \$100 - \$300 million with 3 or more branches (as of 9/30)

Metropolitan Banks- 820

Subject, as a % of Average Assets	2008	2007
Net Income	0.58	1.01
Net Inc Inc – Ave Earn. Assets.	4.00	4.26
LN&LS Allow to LN&LS,not NFS	1.28	1.18
Non Current LN&LS to Gross LN&LS	1.79	0.85
Restr+ Nonac + RE Acq to EqCap +ALLL	15.62	6.37

Non Metro. Banks -846

Subject, as a % of Average Assets	2008	2007
Net Income	1.04	1.18
Net Inc Inc – Ave Earn. Assets.	4.10	4.15
LN&LS Allow to LN&LS,not NFS	1.22	1.22
Non Current LN&LS to Gross LN&LS	1.28	0.89
Restr+ Nonac + RE Acq to EqCap +ALLL	9.55	5.66

Current Bank Options

Assets

• Federal Funds	0.25%
• Treasuries – 5 year	1.69%
• Prime rate	3.35%
• New Car – 60 months	6.76%
• Home Equity Line	4.74%

Liabilities

• Money Market	2.19%
• Certificates of Deposit	
– 6 months	2.36%
– 2 years	3.00%

Source: New York Times 12.23.2008

1,050 or 60% FIs that had a Negative ROA for YTD 9/2008 have assets of \$300 MM or less

FDIC FIs	ROA YTD -43.93% to -0-	% of Total
1,739	All FDIC FIs	
1,050	0-\$300 MM in Assets, excluding 251 FIs that opened in 2007 and 2008	60%

FDIC FIs	ROA YTD .01% to .50%	% of Total
1,458	All FDIC FIs	
1,032	0-\$300 MM in Assets, excluding 251 FIs that opened in 2007 and 2008	71%

FDIC FIs	ROA YTD -43.93% to .50%	% of Total
3,197	All FDIC FIs	
2,082	0-\$300 MM in Assets, excluding 251 FIs that opened in 2007 and 2008	65%

In summary, here's why the proposal makes sense.

- Assists qualified homeowners to weather this economic storm,
- Stimulates quality lending in local communities,
- The Safety & Soundness examination function remains with the regulators – no new agency
- Indirectly assists in cleaning up the MBS market and
- If properly administered and structured, will do so at no cost to the federal government and taxpayers.

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