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Dear Clients

A few weeks ago, the headline article in USA Today money section read:

*If you haven't yet felt the impact of the nation's credit crisis, just wait. Chances are, you won't have to wait long. So far, the turmoil may feel a bit remote for average people: Failed mortgage lenders. Gargantuan losses by banks. Foreclosures for people who really couldn't afford the mortgage they got. But what about the rest of us? Are we in danger? No one knows for sure, but quite likely, yes.*

The fallout from the "cheap money" and "easy home loans" that have been a part of the American financial landscape for the past 6 years or so is squarely upon us. Real estate is in a recession, auto loans are more difficult to get, wild volatility in the stock and bond markets persists and there is a distinct slowing of the growth in the economy. Until the third week in July, very little detail about the size and scope of the mortgage problem was even printed.

You've heard the term a million times since the summer, "sub-prime loans." Essentially, these were real estate loans written and sold to just about anyone who wanted one. Often, they required no income verification, no credit score analysis and in general, no other financial documentation. To make the loans even more attractive, most were written on virtually the entire price of the property that was being purchased, hence forgoing any down payment. The payments on these loans were typically "interest only" for the first 24 months, then would require the monthly payment to be "reset" to a higher amount periodically over the remaining life of the loan. Unlike a traditional adjustable rate mortgage (ARM), these reset payments were part of the loan contract and had nothing to do with the actual interest rates in the economy.

Because these "sub-prime" loans weren't written through the traditional banks, the government oversight of these loans was virtually non-existent. In July, when the loan defaults could no longer be swept under the carpet by Wall Street, the estimate of sub-prime loan exposure was given to be around \$500 billion. Last week, the Wall Street Journal put the size of the sub-prime loan exposure to be approximately \$2.1 trillion. That makes it bigger than the Savings and Loan crisis of the 80's, or the NASDAQ stock market bubble of 2000.

Since this problem is going to be with us for at least the next 18 months, I wanted to provide you a straightforward explanation of the sub-prime mortgage mess. We found the enclosed article by researching the topic on the Internet. I hope this will help provide some insight to the problem.

Sincerely,

*George*