

October, 2008

Dear Investors,

Simply and directly, here's an additional update.

Historically, lack of the right information causes worry, fear and even panic. That's what's happening globally with the financial markets reacting to the credit crunch. The Emergency Economic Stabilization Act is beginning - yet it will take time.

After five good years, this past financial quarter was not good. The Large Cap (S&P 500) Index backtracked 8.8%, the Mid-Cap Index backtracked 15.1%, the Small-Cap Index backtracked 1.5%, the International Index backtracked 19%, the Emerging Markets Index backtracked 25%, the Real Estate Index was up 5.4%, the Long Term Government Bond Index was down 3.6%, the Short Term Government Bond Index was down 0.25%, the High Yield Corporate Bond Index was down 6.6%, the Pacific Index was down 17.9%, and the European Index was down 19.4%.

October has had most of the stock indexes pull back 15% or more, with government bonds continuing to hold up well. There's more short term volatility in this market, most likely on the upside.

The decisions our government and leadership made with Fannie Mae and Freddie Mac in 1995 and 1999 are being paid for dearly in 2008. A small portion of the \$12 trillion U.S. mortgage market is putting tremendous pressure on financial markets. The \$700 billion taxpayer funded rescue plan is 5.83% of the \$12 trillion mortgage market. **Deciding not to relax credit the requirements and not to fund the bottom 5% of mortgage borrowers in 1999 was the right thing to do.**

The media has been all over this – remember over 90% of news is of the negative nature. You would think based on the newspapers and television that 8 of 10 homes are being foreclosed. **Here's reality...** 33% of U.S. homeowners have no mortgage. Only 3% of total households are behind on mortgage payments and **about 1% eventually will go through foreclosure.**

Fannie Mae and Freddie Mac are currently servicing 30.4 million first lien mortgages totaling \$4.4 trillion. The average FICO credit score was 722 at origination with an average loan-to-value of 72%. Over 25 million (83%) of those mortgages are prime mortgages (credit score of 660 and above) and about 5 million are nonprime mortgages (a credit score below 660).

98.83% of the mortgages are current or less than 60 days delinquent and 1.17% are 60+ days delinquent. Only 0.12% of the mortgages have had foreclosure initiated.

Here is what's really troubling - more than 7.5 million homeowners **spend at least half of their income on their mortgage**; and 19 million spend more than 30%. From a financial planning standpoint, **no more than 25% of a family's income should be spent on mortgage principal, interest, taxes and insurance**. That means over 53% of all homeowners have too large of a mortgage. Most lending standards consider 28% to 41% of income toward a mortgage "normal". **This needs to change.**

Financially, a home is not an investment asset; **it's a use asset**. A home with a mortgage is technically a financial liability. With an average of 1% annual home maintenance expense, average projected future annual inflation of 4%, and past average long-term annual home price increases of 5%, expect your home over the long term to be the same value in today's dollars.

We will get through this. You can't think a positive emotion and a negative emotion at the same time. For thousands of years, faith has been the best positive emotion.

Thank you very much for your business.

Sincerely,

A handwritten signature in black ink, appearing to read 'Les Jepsen', written in a cursive style.

Les Jepsen, MBA
Jepsen Consulting