

# On the March:

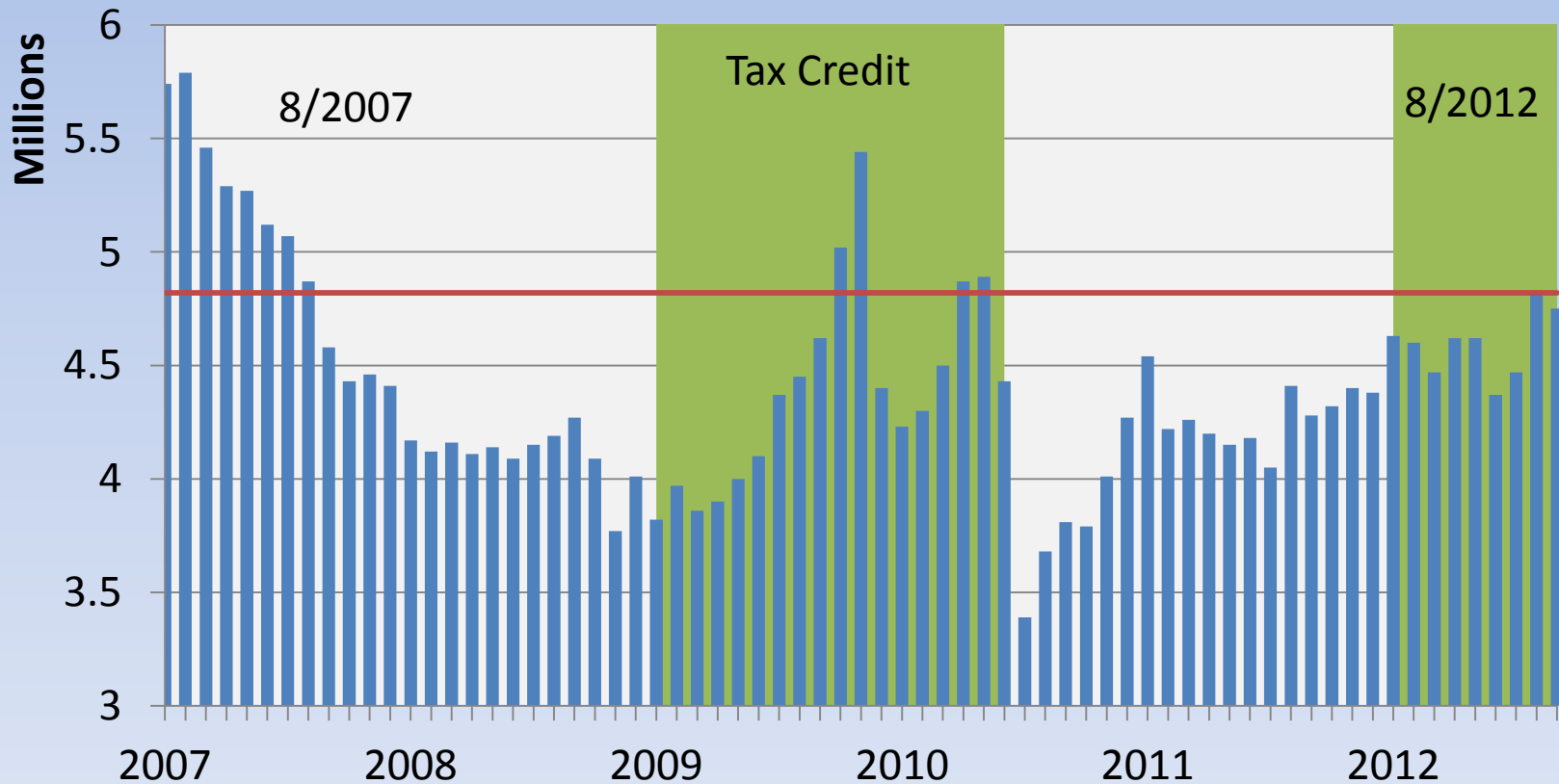
The Housing Market Finds Traction

Ken Fears

NAR Research

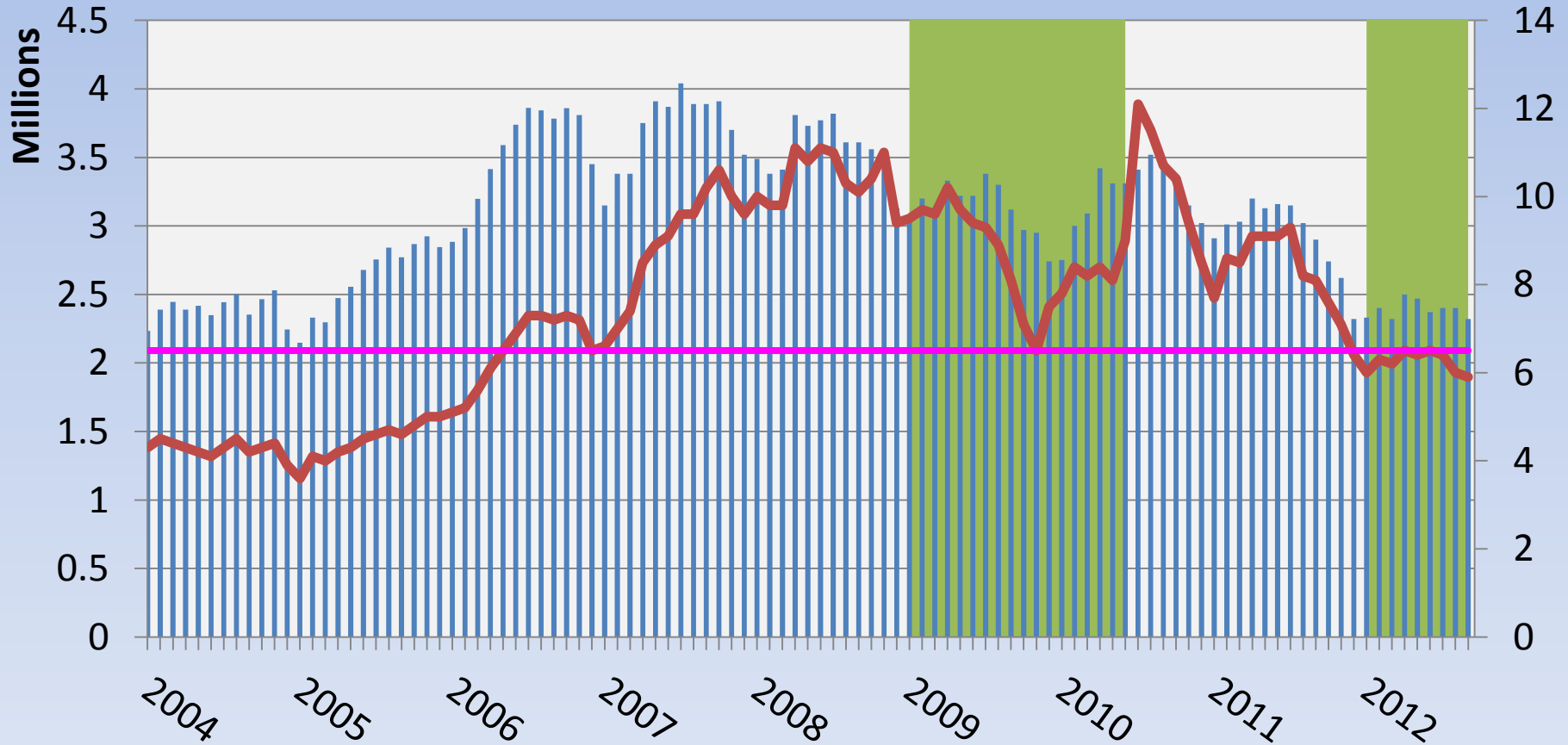
# Spring's Strength is Sustained

## Existing Home Sales

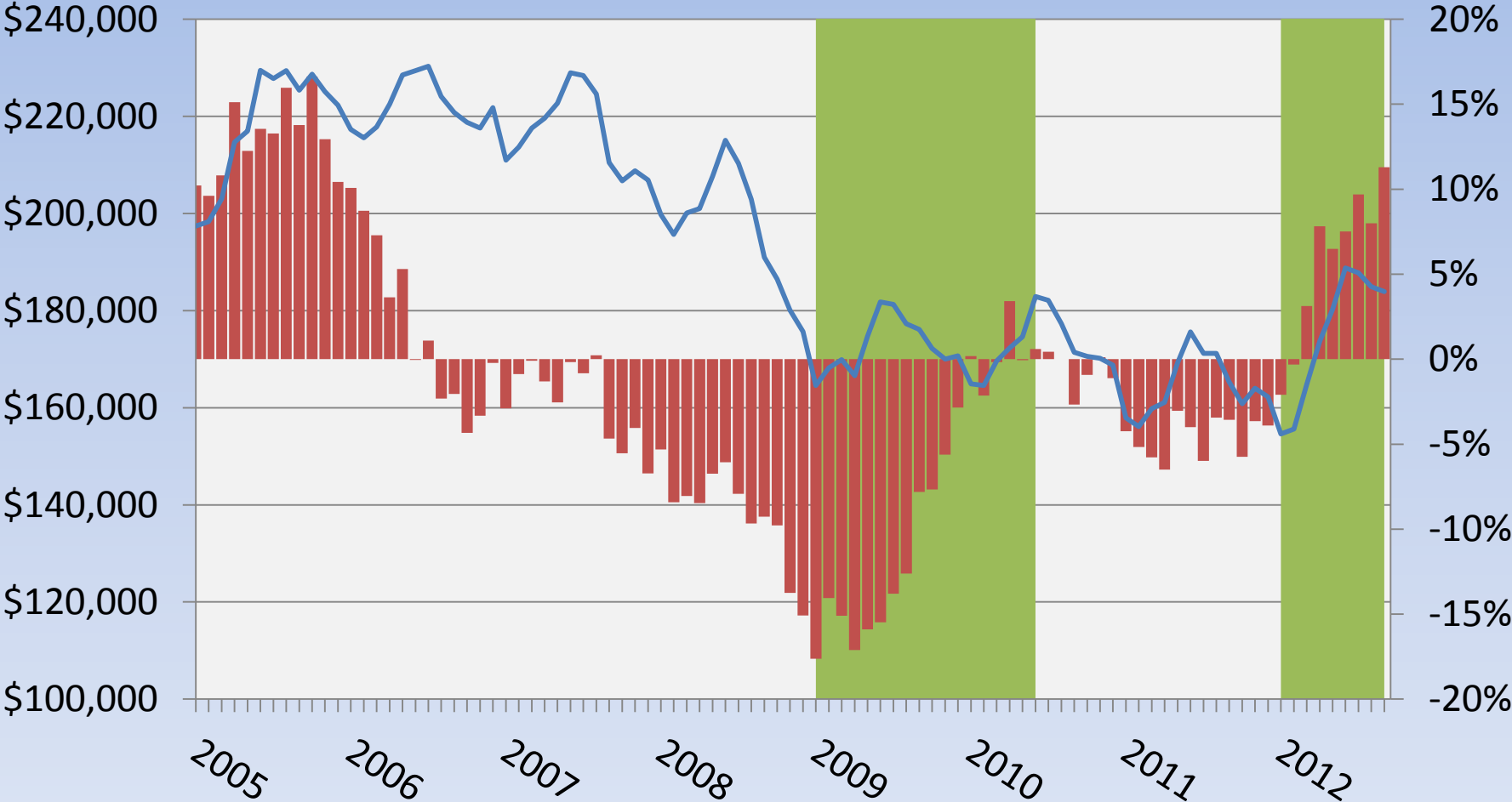


# Supply Fell as a Result

Inventory (left axis in blue) and Months Supply (right axis in red)



# Prices Responded to Low Months Supply



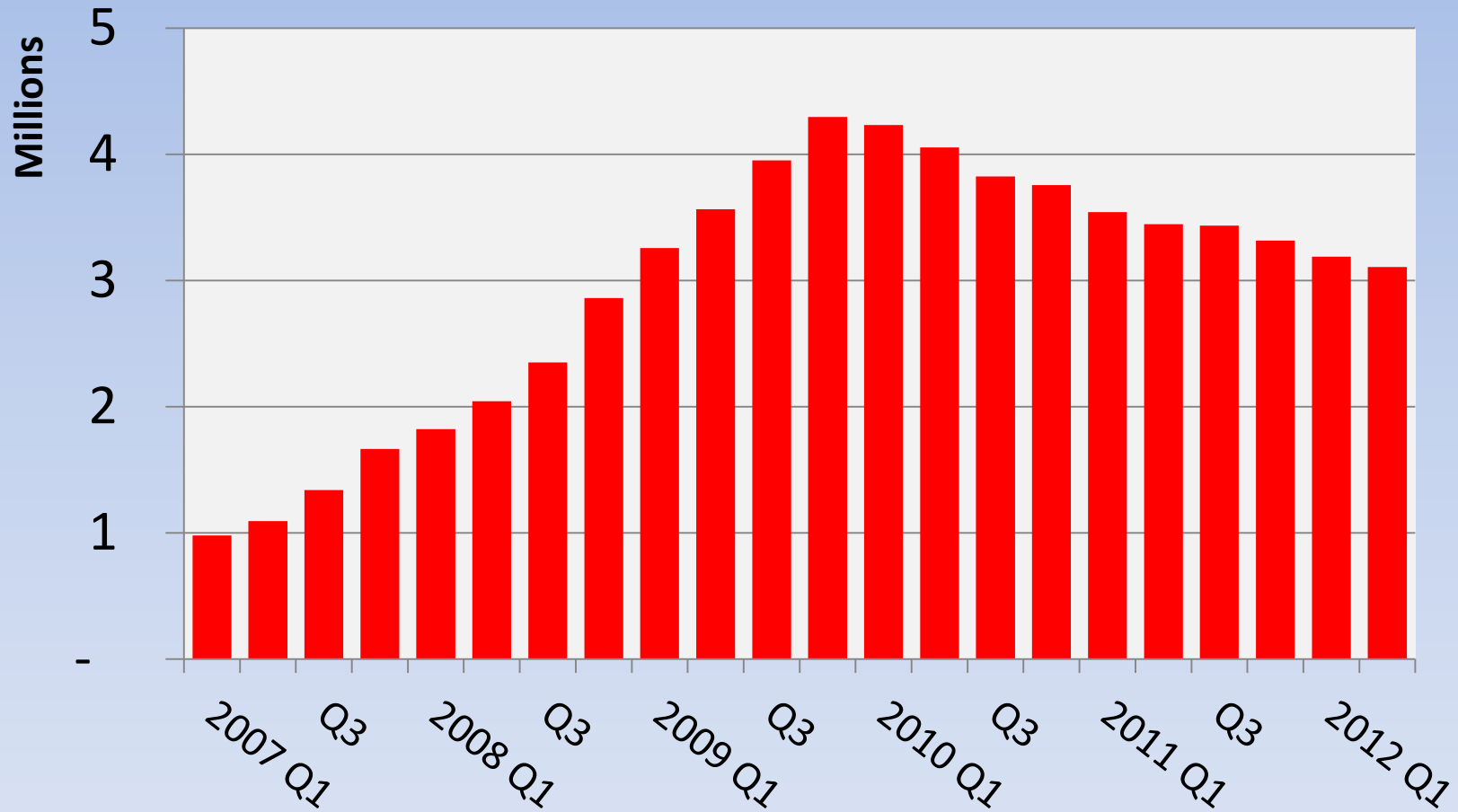
Source: NAR

# **SUPPLY AND DEMAND**

# Price Growth Breeds a Virtuous Cycle

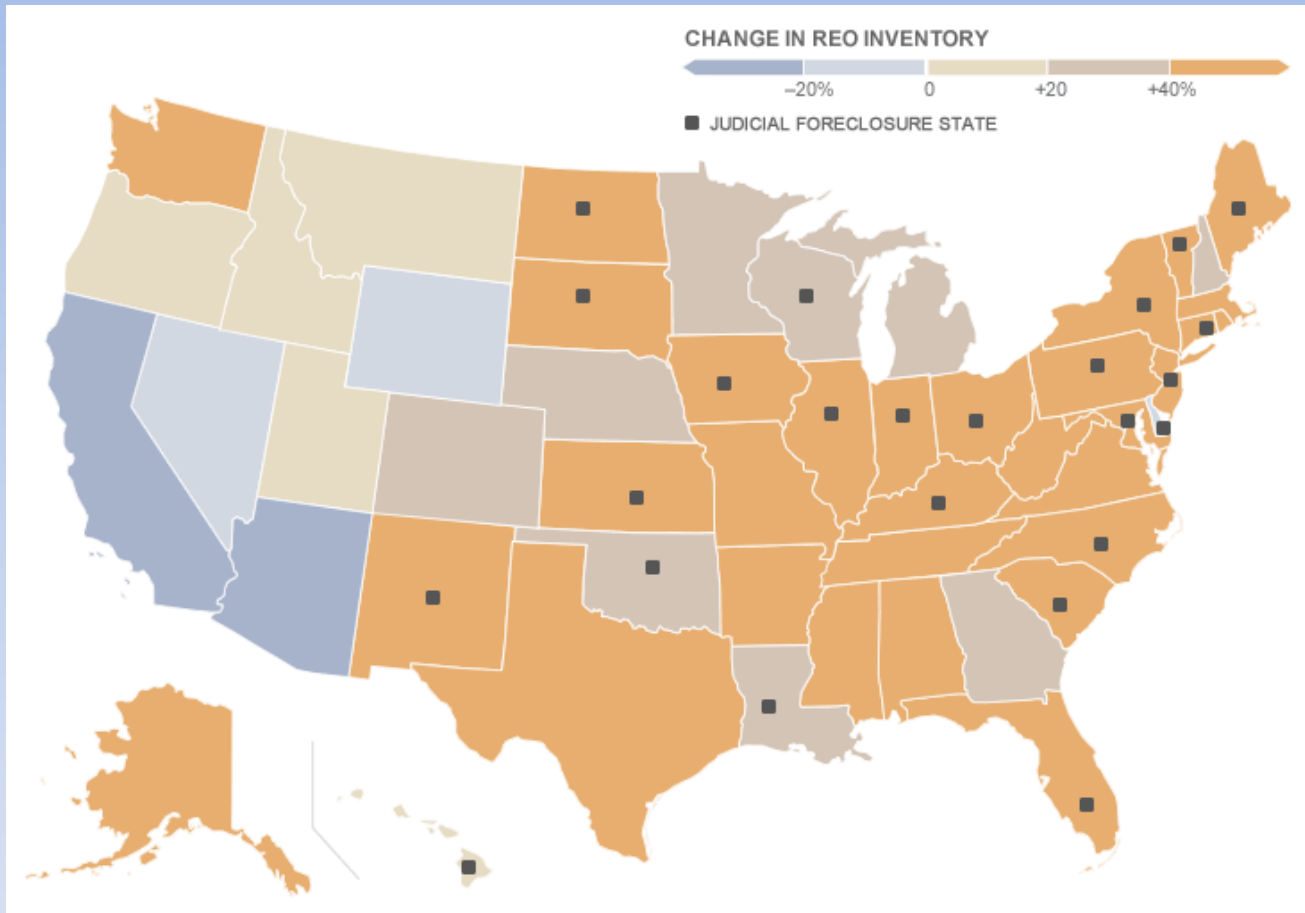
- Buyers more confident to make purchases
- Higher volume at improved prices eases appraisal issues
- Easier to refinance, raises hope for distressed, banks more open to short sales and deed-in-lieu -> reduces shadow

# Shadow Inventory Falling as Fundamentals Improve



Note: This estimate includes mortgages that are 90-days delinquent and in foreclosure (source: MBAA); it does not account for early stage delinquencies, improved role rates (short sales and dead-in-lieu), lower re-defaults on modifications, or REOs

# Many Distressed Properties Stuck in Process



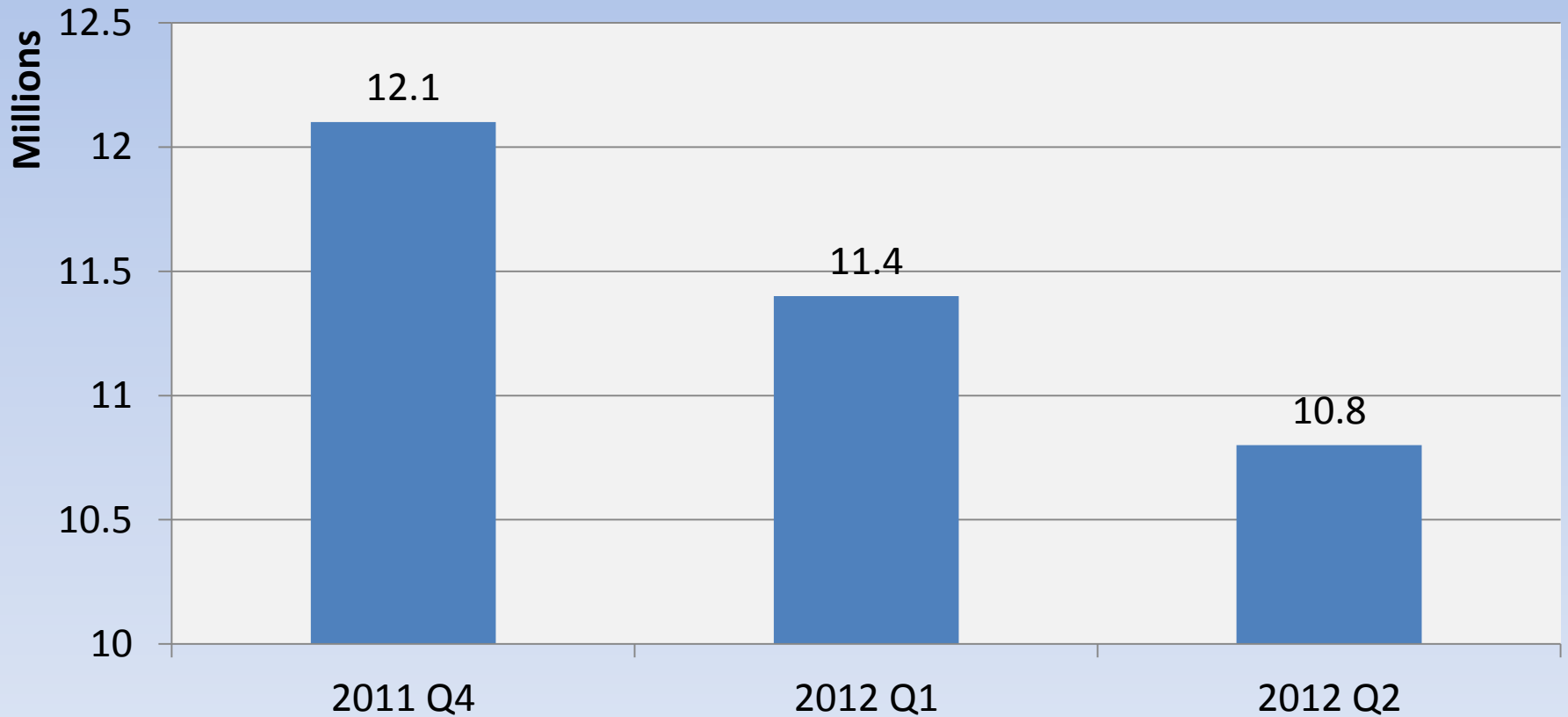
Federal Reserve Board of NY projection of change in REO levels if timelines on seriously delinquent loans decline



# Home Prices Reduce Underwater

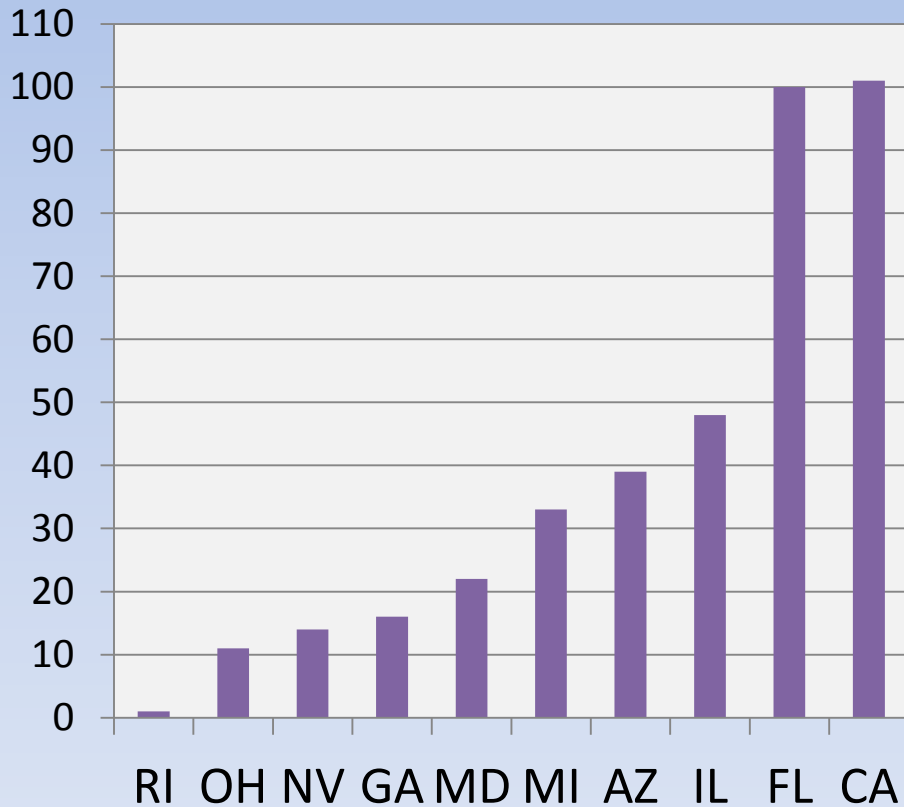
Improves Sales and Reduces Foreclosures

## Negative Equity

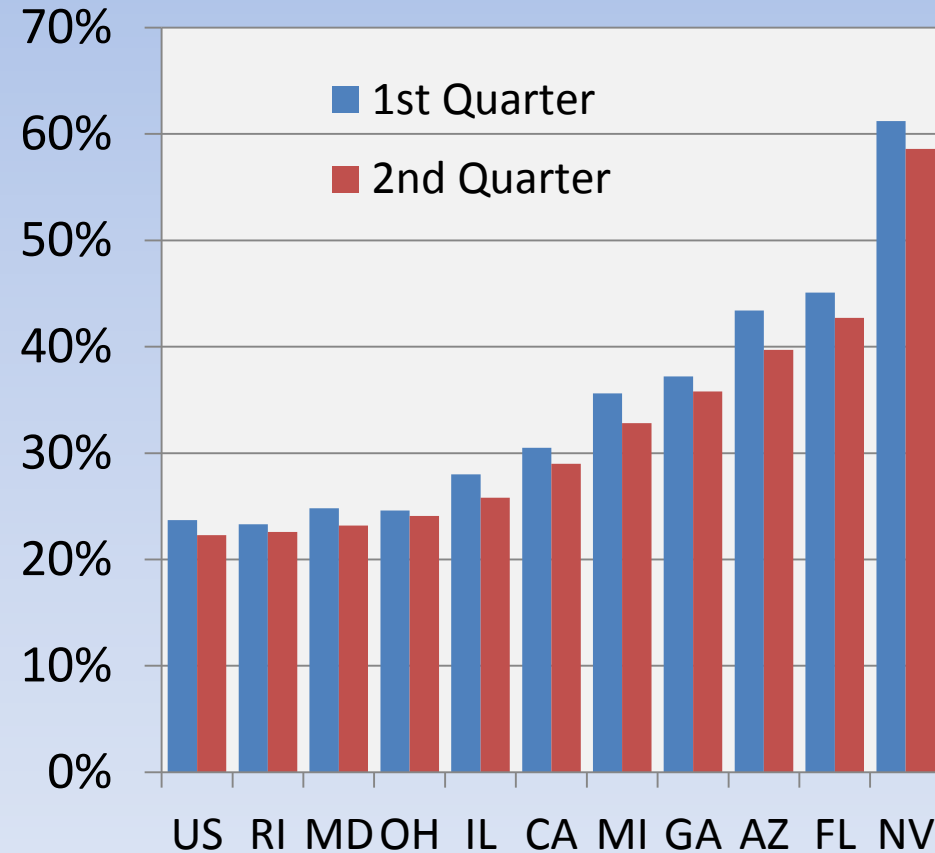


# Hardest Hit Markets Benefited the Most

## Decline in Underwater Mortgages

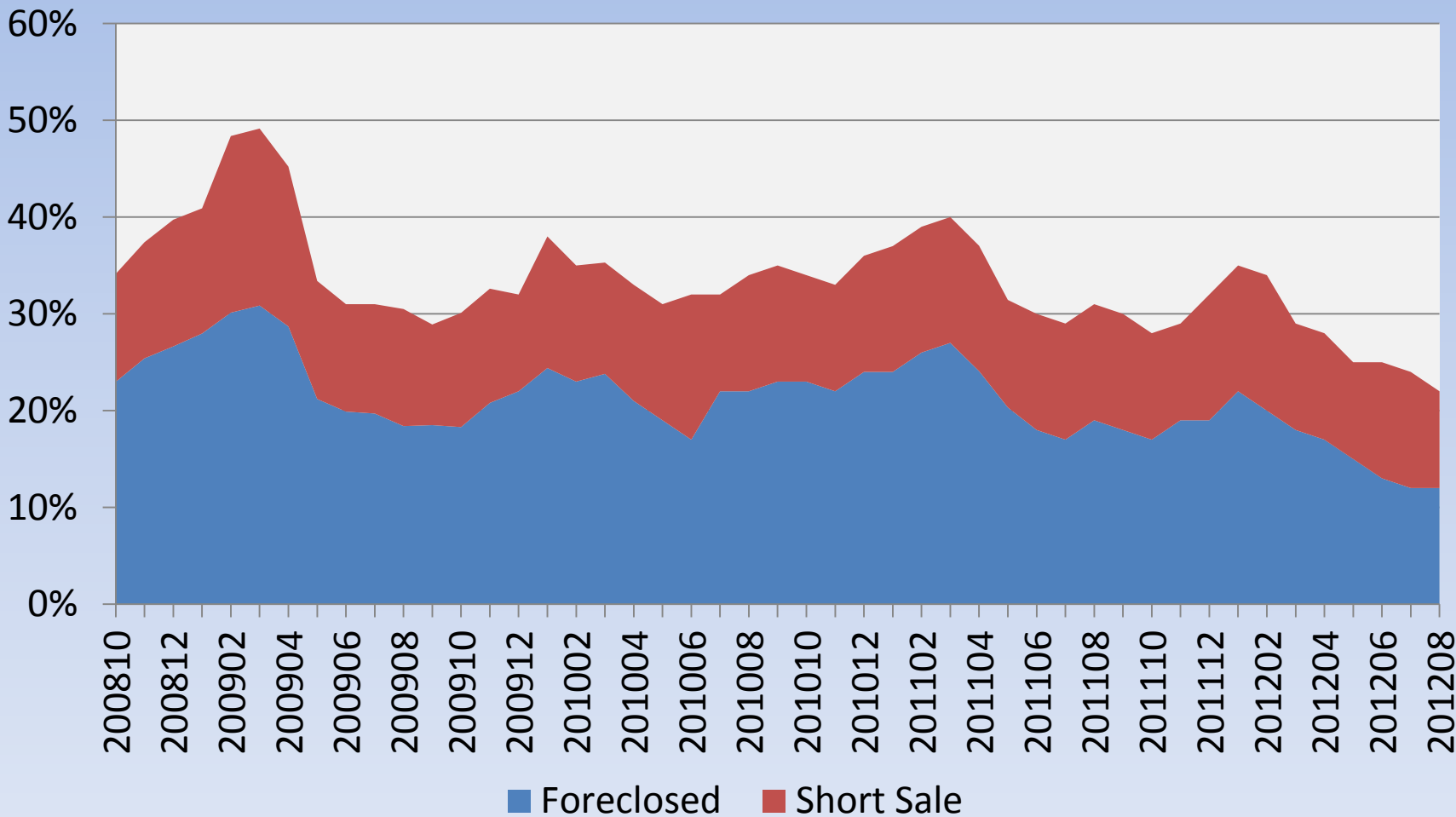


## Share of Loan Underwater



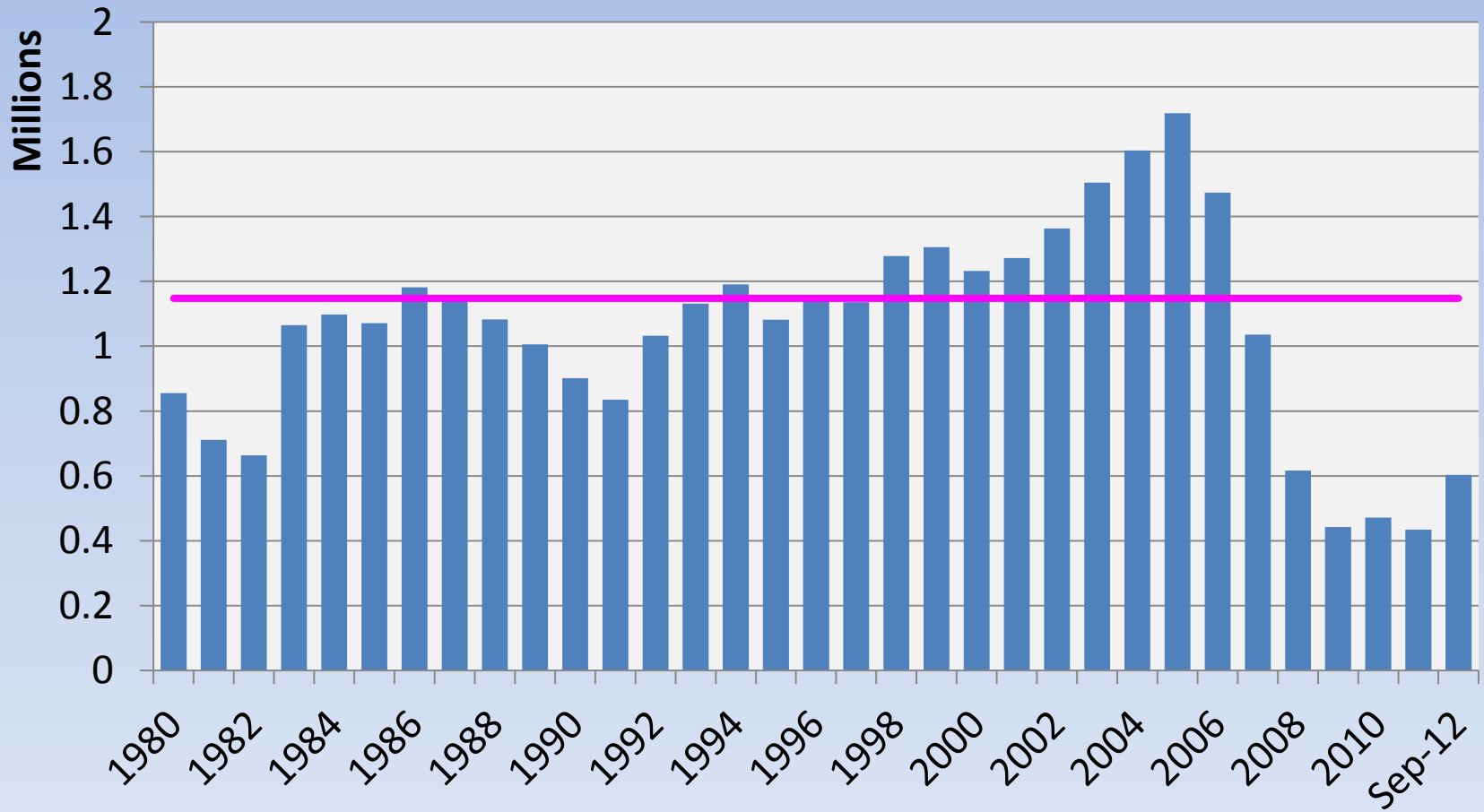
Source: Corelogic

# Stronger Pricing Helps Transition to Healthy Market

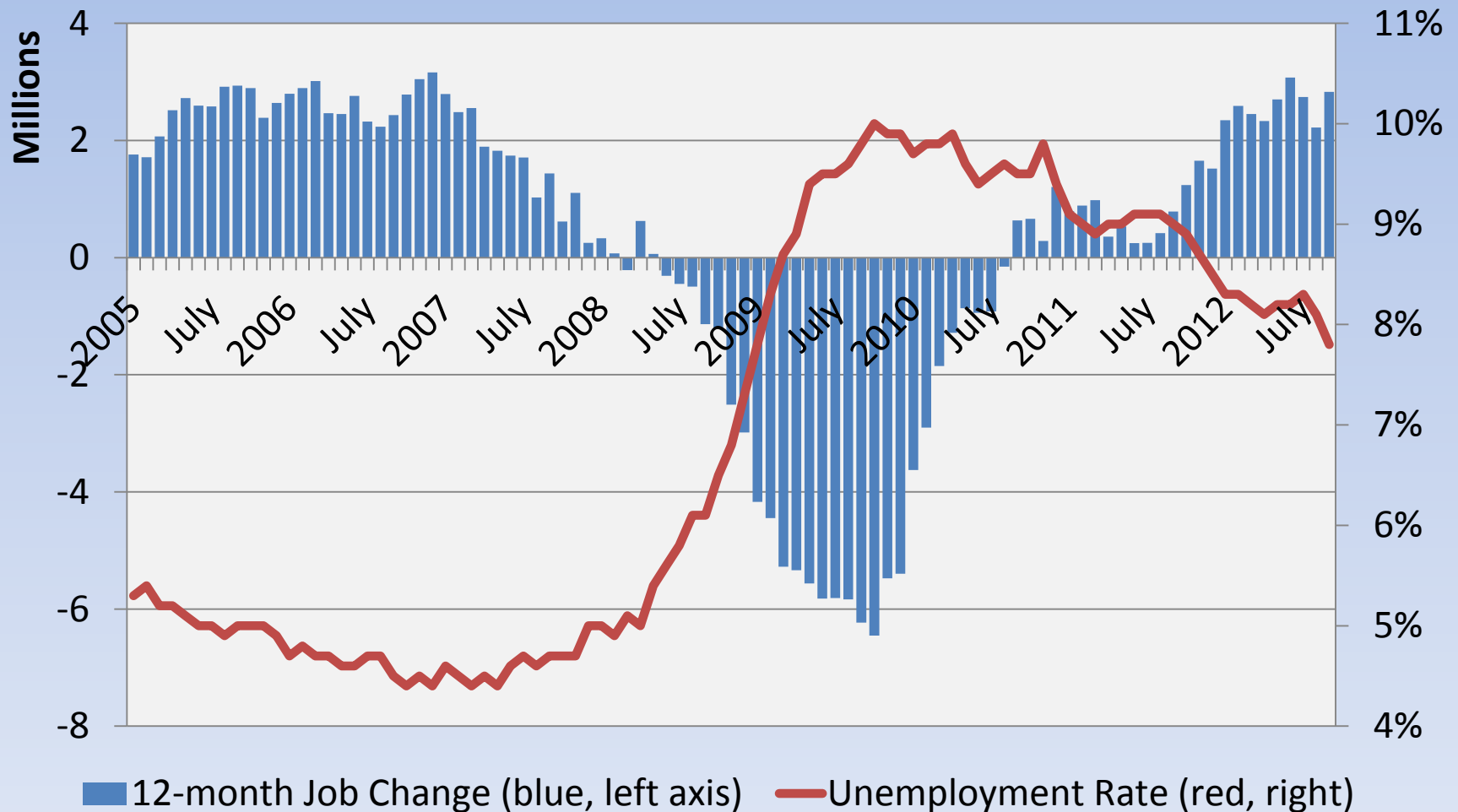


# Construction is Up, but Weak:

Good for Inventories and Prices, but Bad for Employment

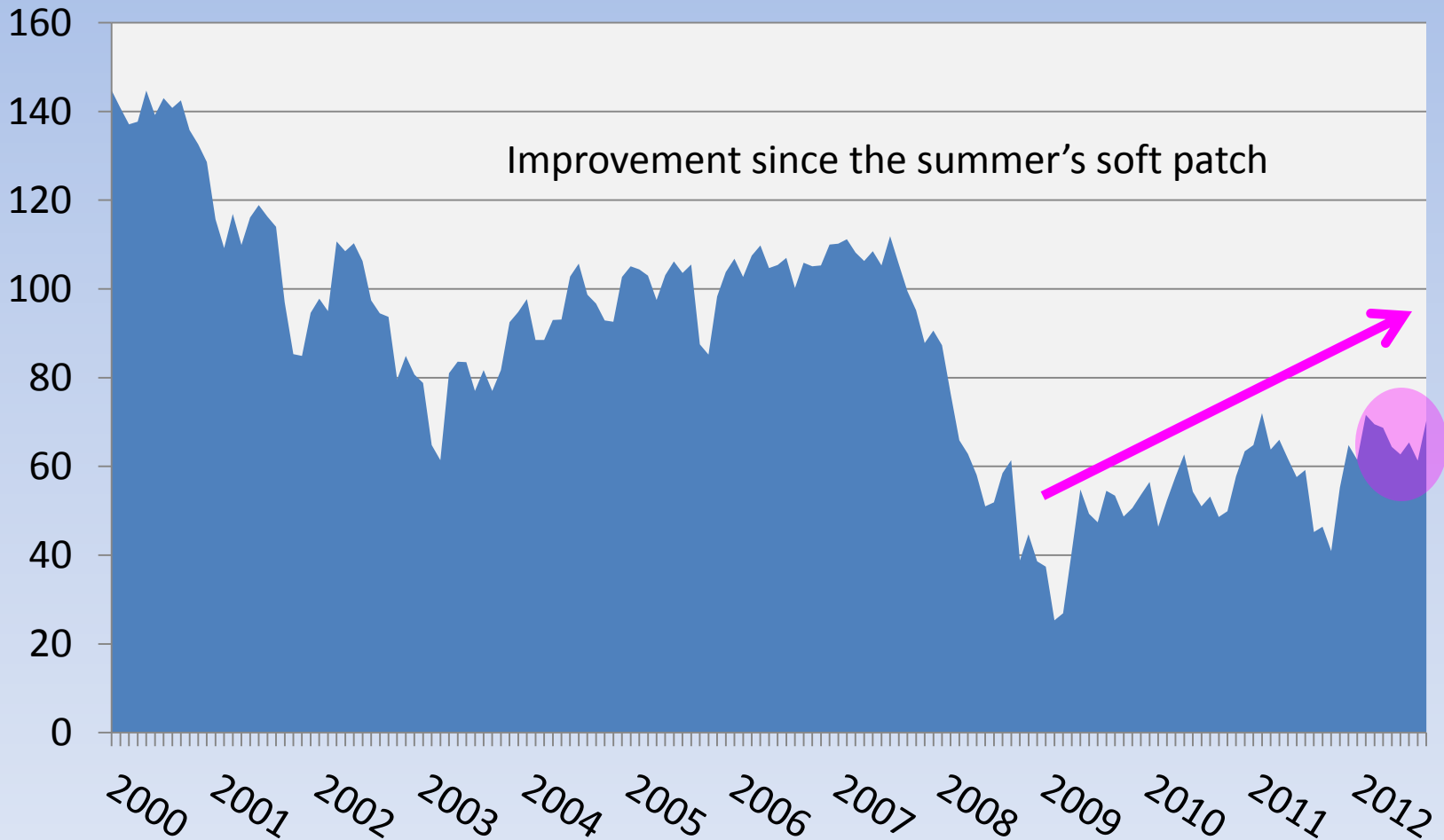


# Employment Has Grown, but Unemployment Still High

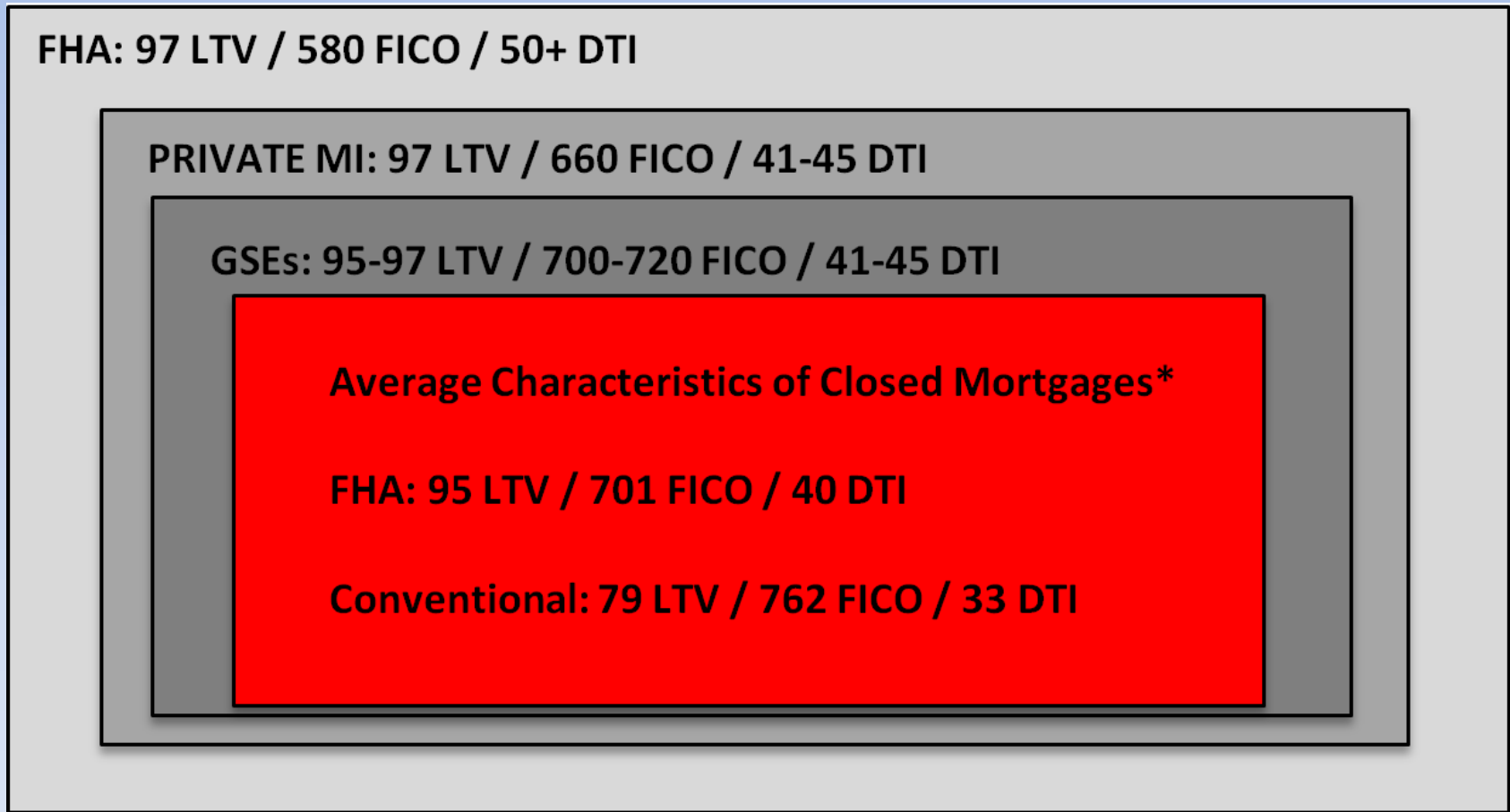


Source: BLS

# Consumer Confidence Rising



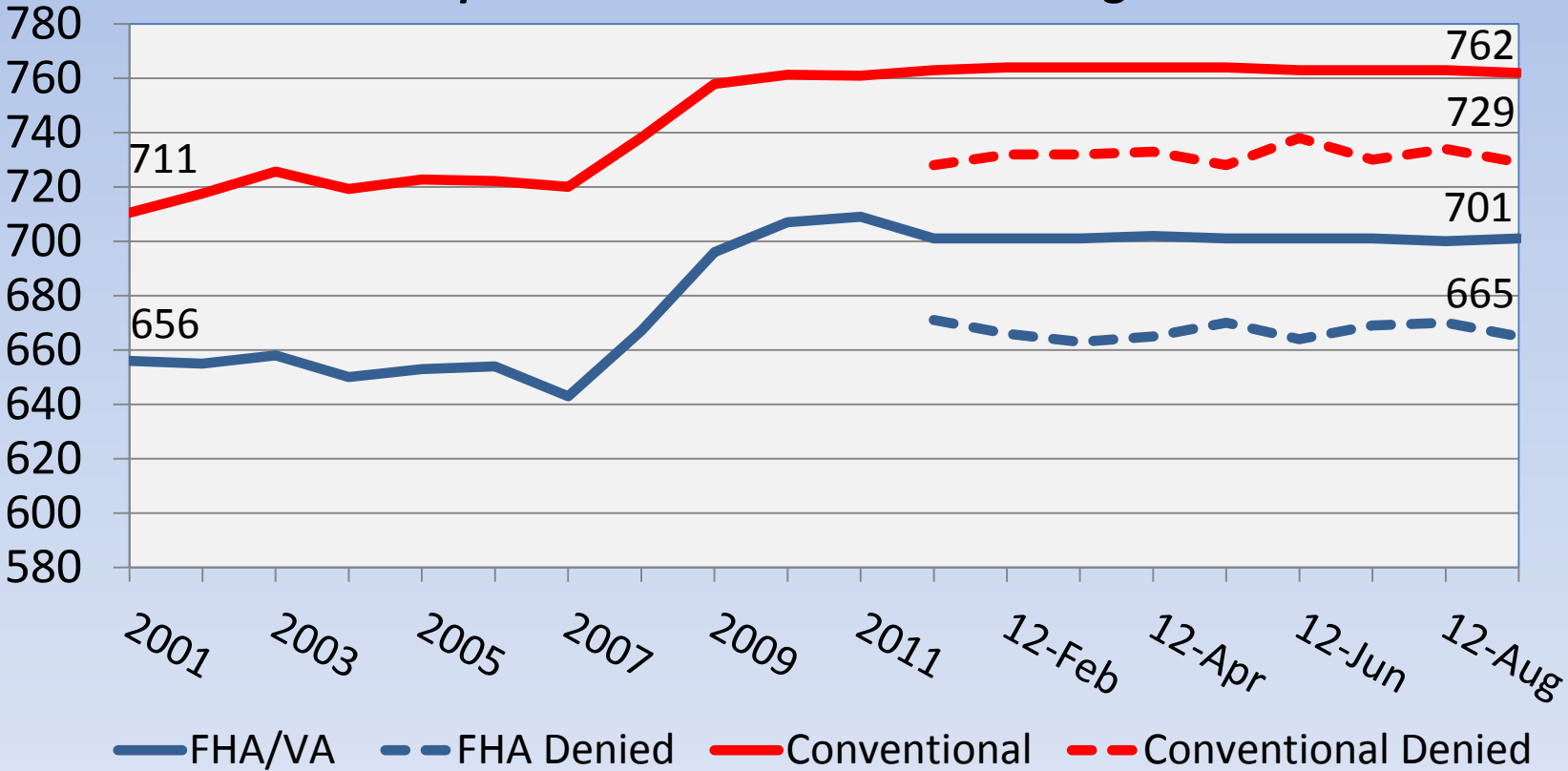
# TIGHTENING OF PURCHASE CREDIT BOX: ACCEPTABLE LOAN PROFILE VS. REALIZED



\*Source: Ellie Mae (Sept. 2012)

# Tight Lending Holding Back Sales 10%-15%

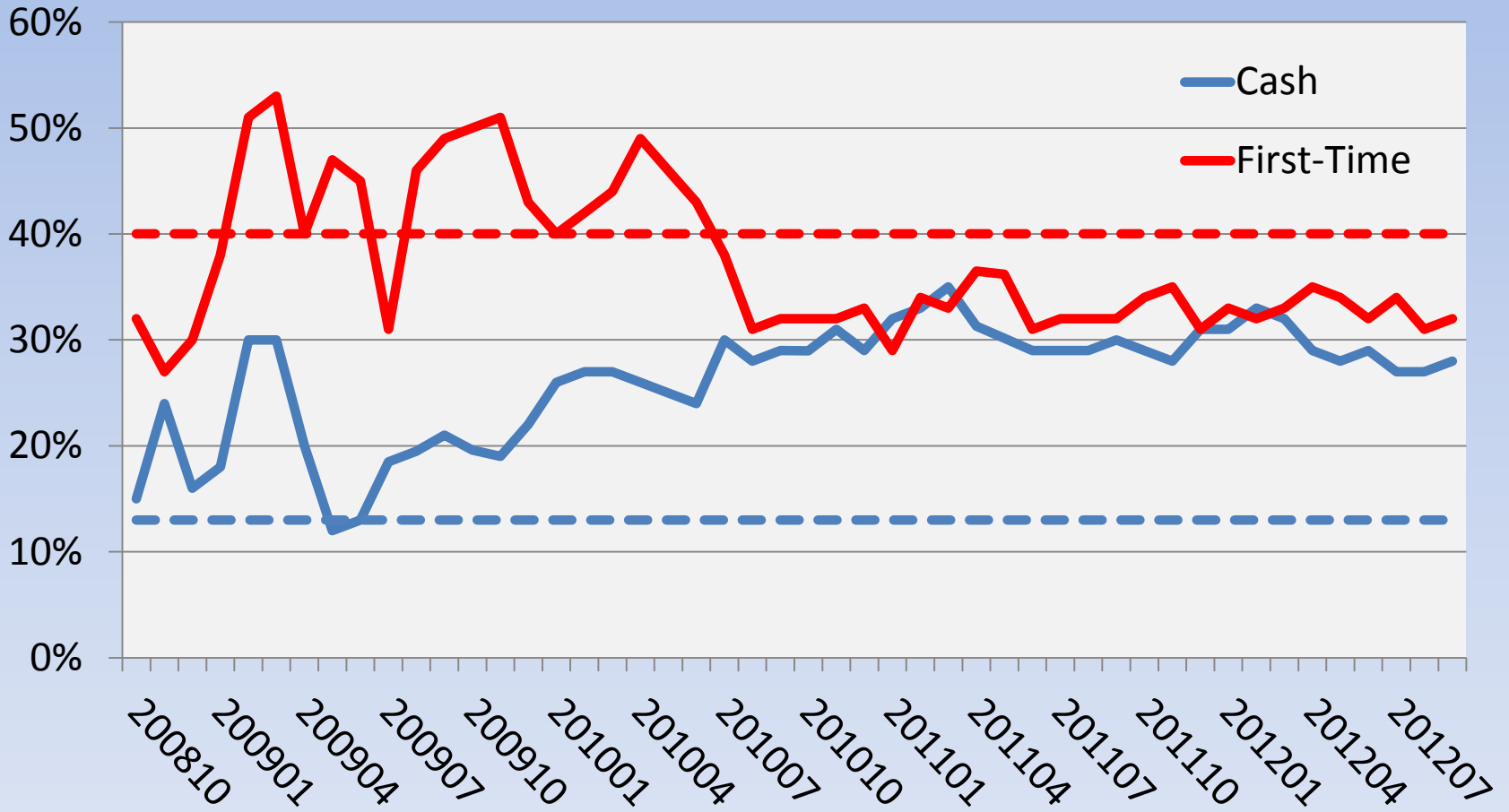
**Average FICO Scores on *Denied* Applications in 2012 Were Higher Than *Accepted* Loans Prior to the Housing Boom**



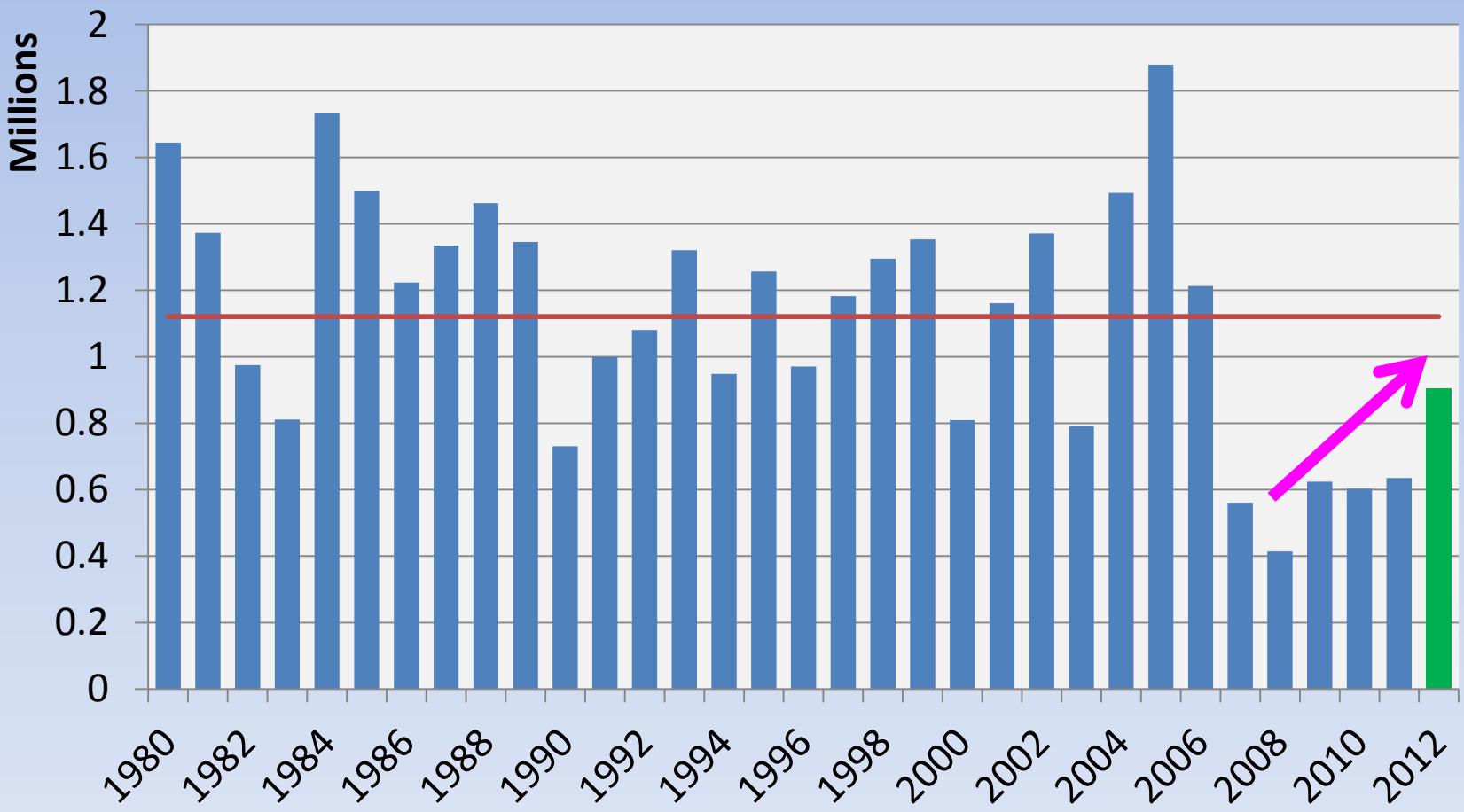
Source: Amherst Securities, Corelogic, Ellie Mae



# Financing Still Skewed



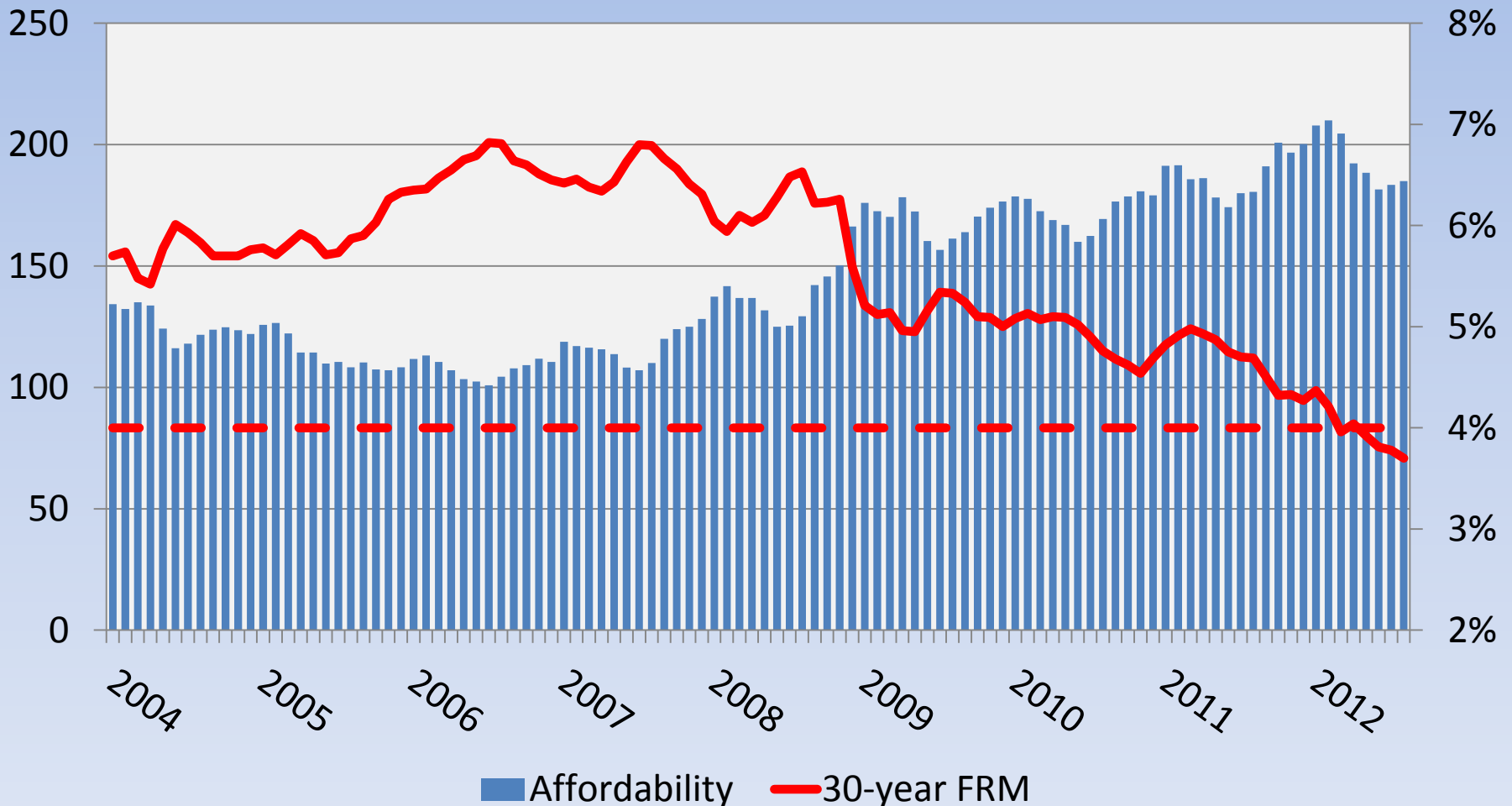
# Household Formation: Tepid, but in the Right Direction



Source: Census

# Sub-4% Rates Supercharged Affordability

Monetary Easing in Place (QE3)

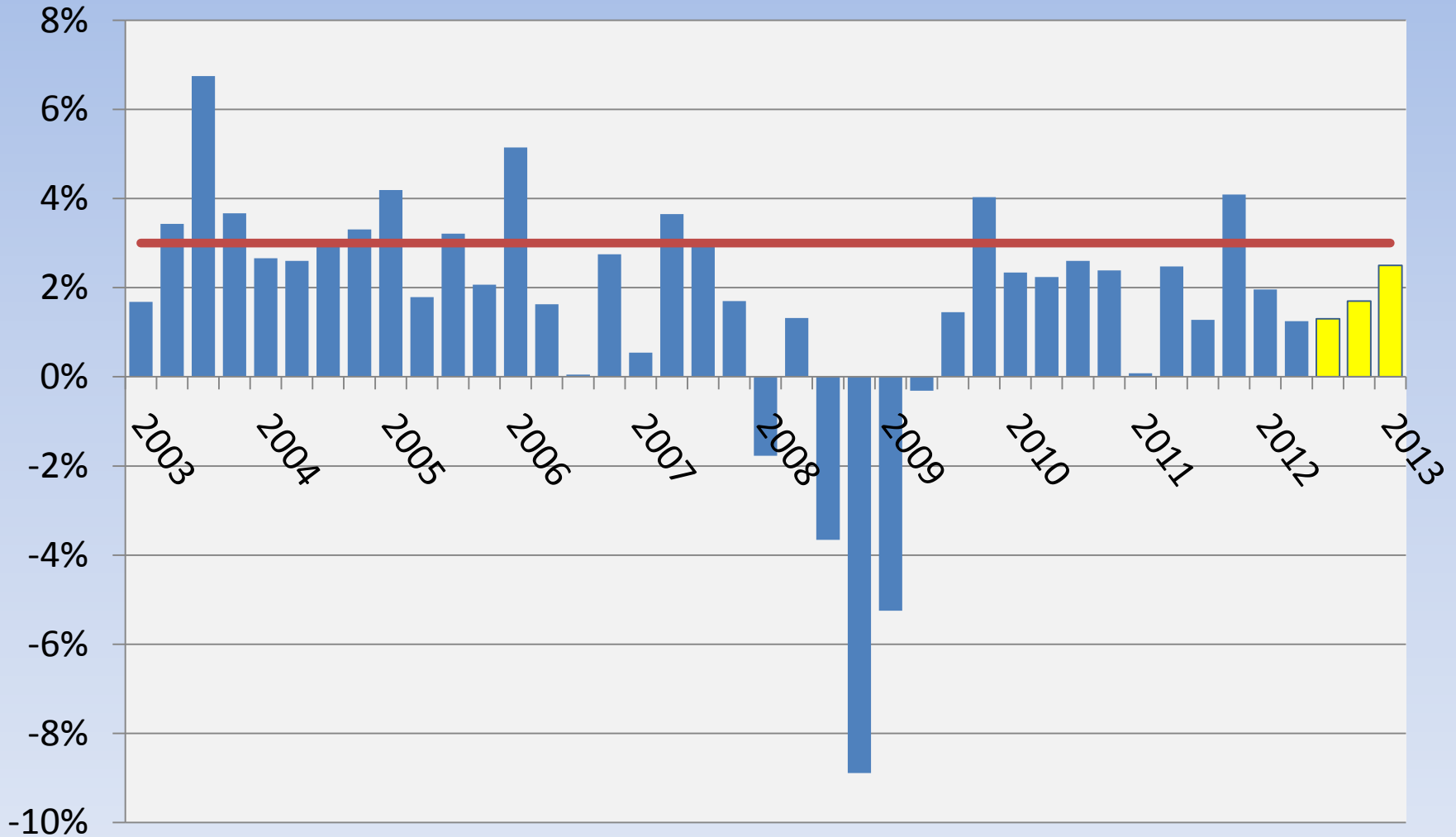


Source: NAR, Freddie Mac

**LOOKING FORWARD**

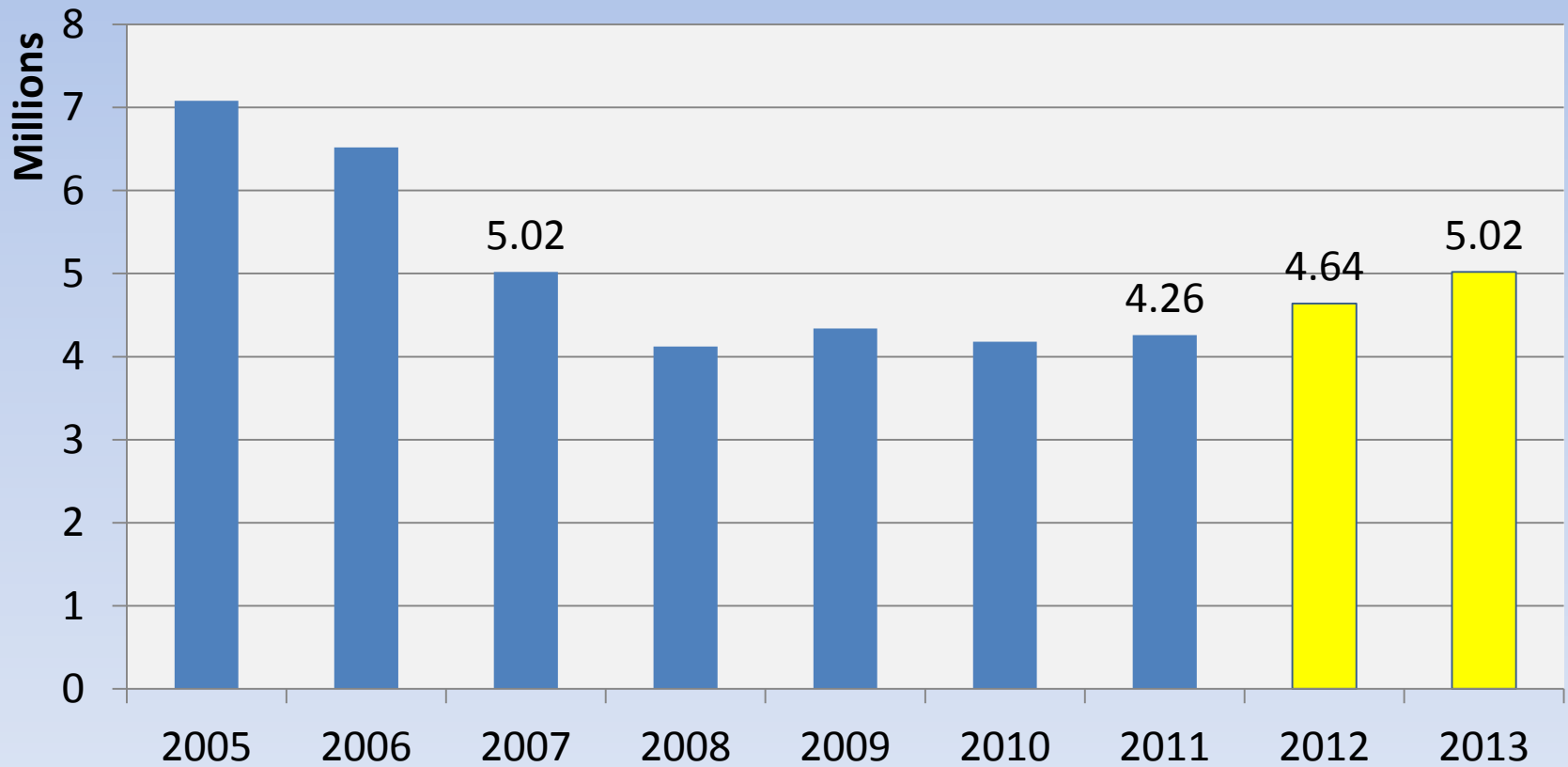
# GDP Growth Steady, but Modest

## Employment Will Expand Likewise



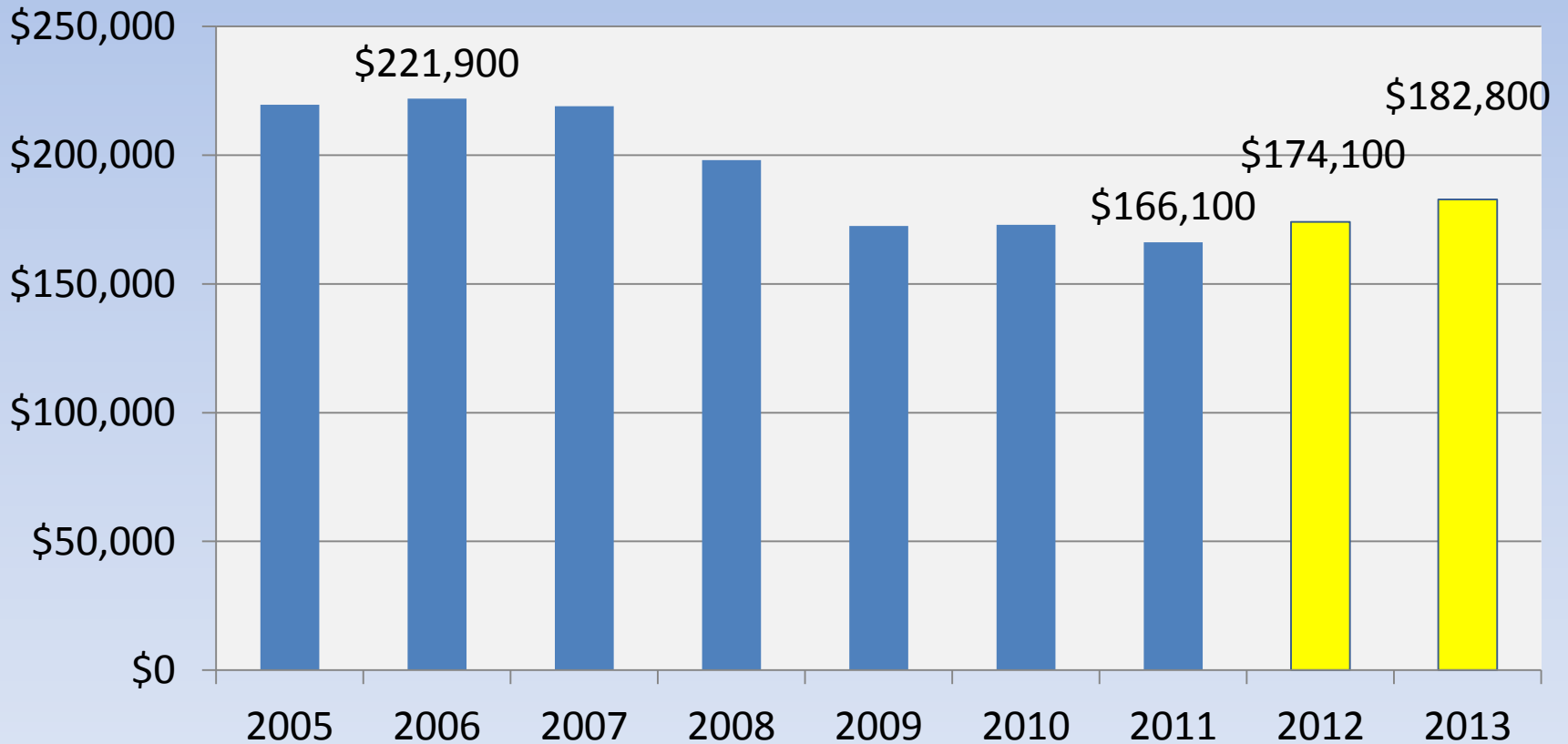
# Home Sales to Expand Steadily

## Existing Home Sales



# Driving Price Growth

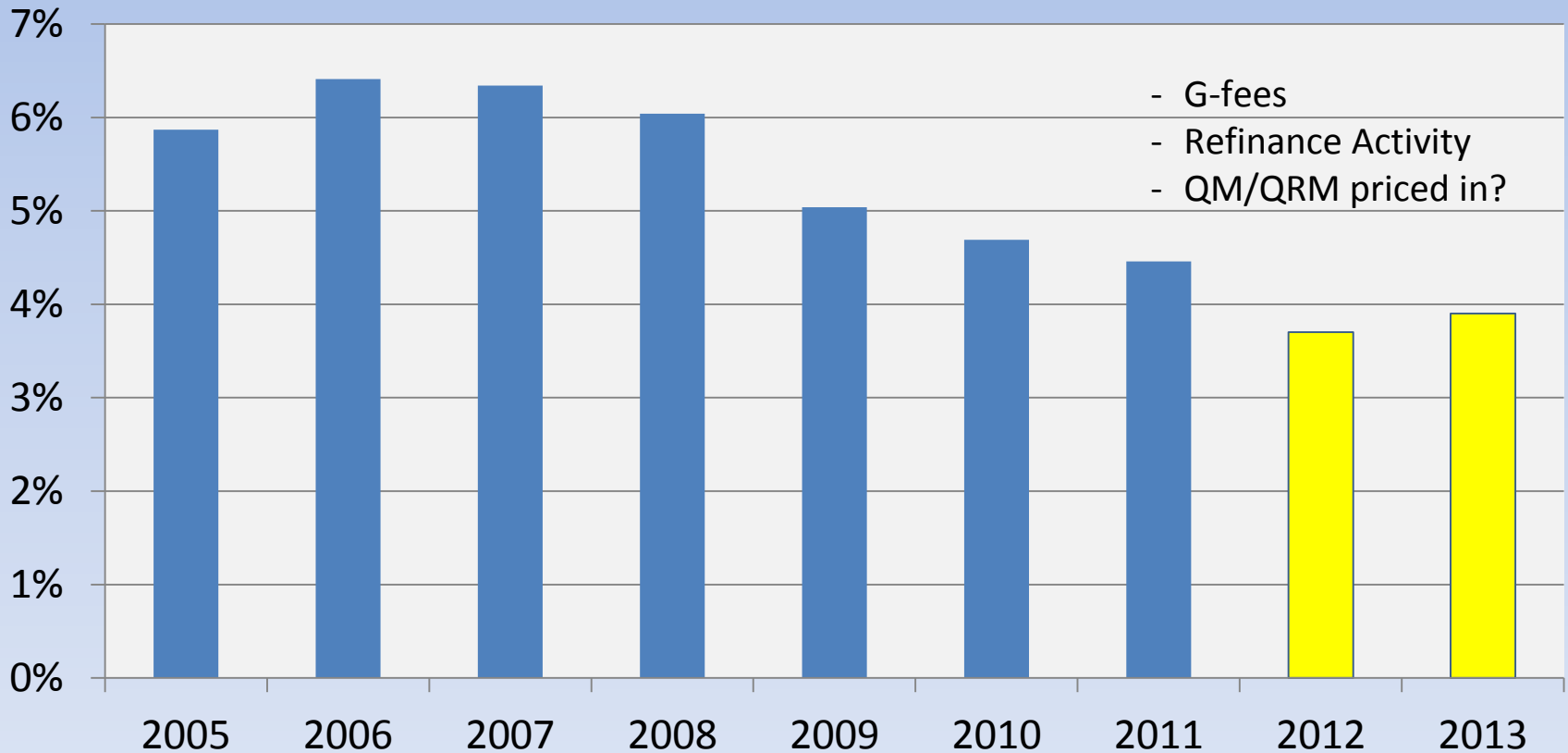
## Existing Home Sales



# FOMC to Keep Rates Low

Funding/Coupon Spread to be Passed on?

## 30-Year Fixed Rate Mortgage





# Concerns

- Economic growth to remain modest through 2013
- Dodd-Frank and Basel III
- Fiscal Cliff
- Re-emergence of shadow inventory (re-defaults, weak employment, mass refinances don't help, or...)
- Can the FED keep rates low