

Fundamentals Take Hold

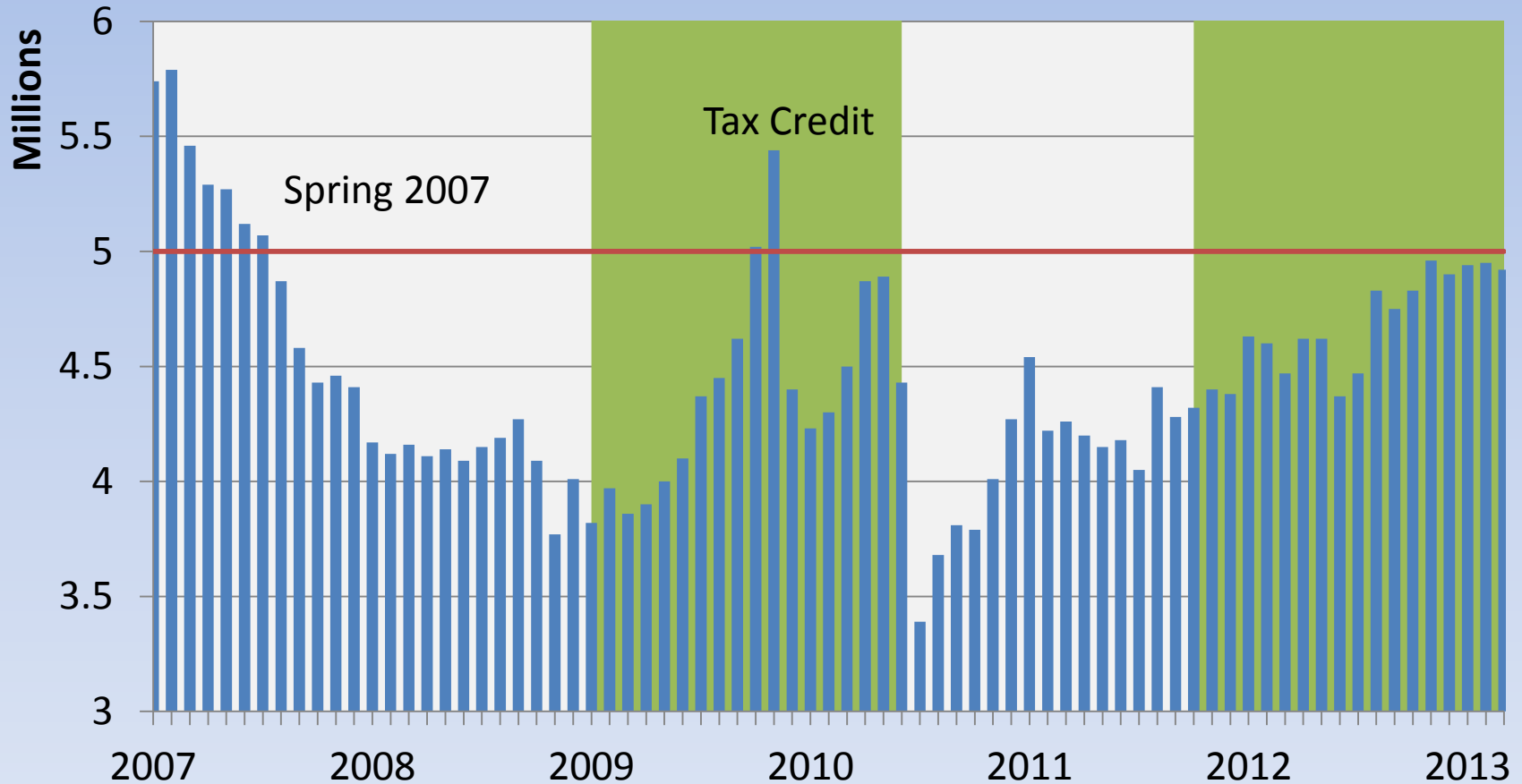
Rates and Inventories Drive the Market

Ken Fears

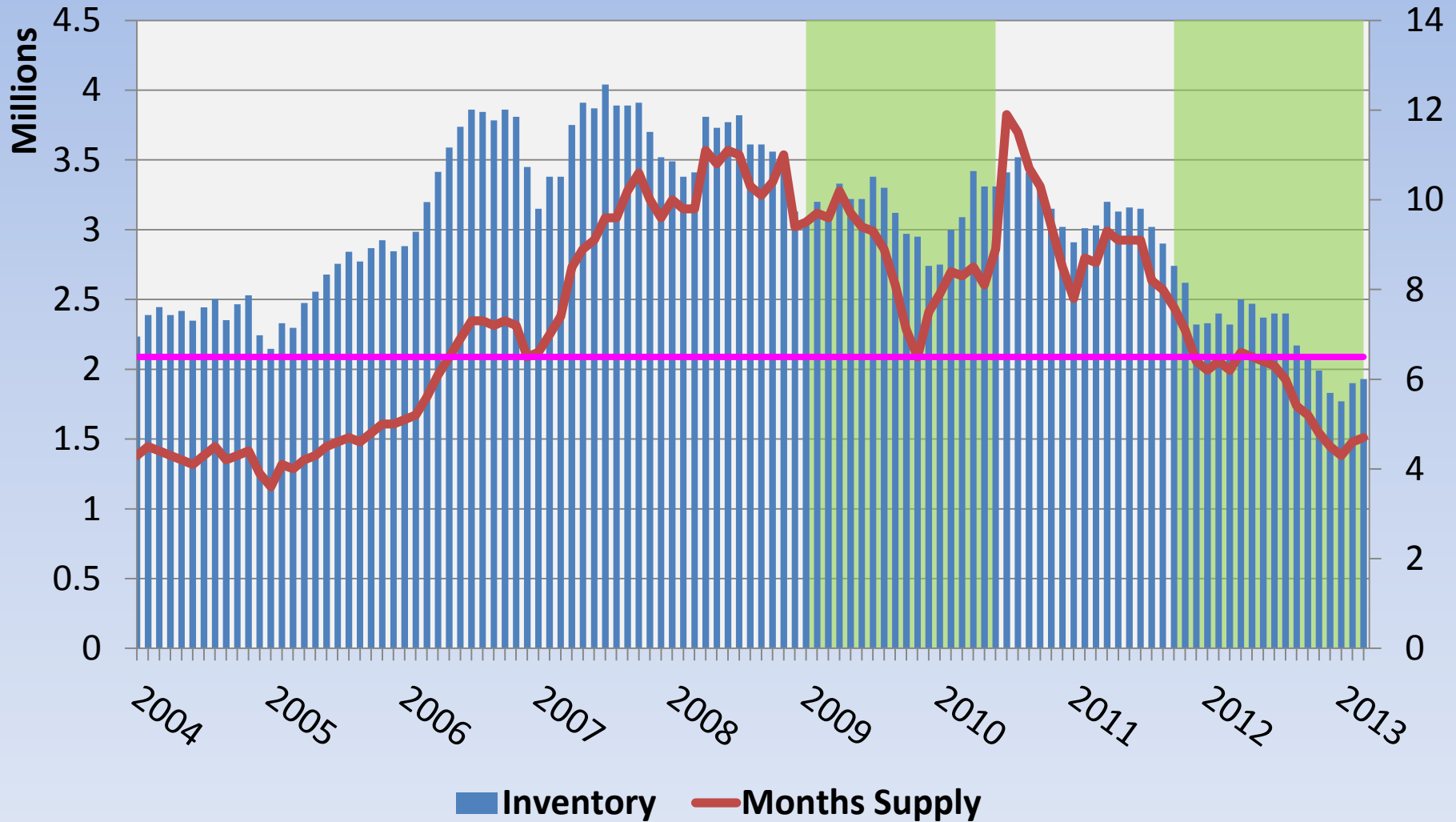
NAR Research

Spring's Strength is Sustained

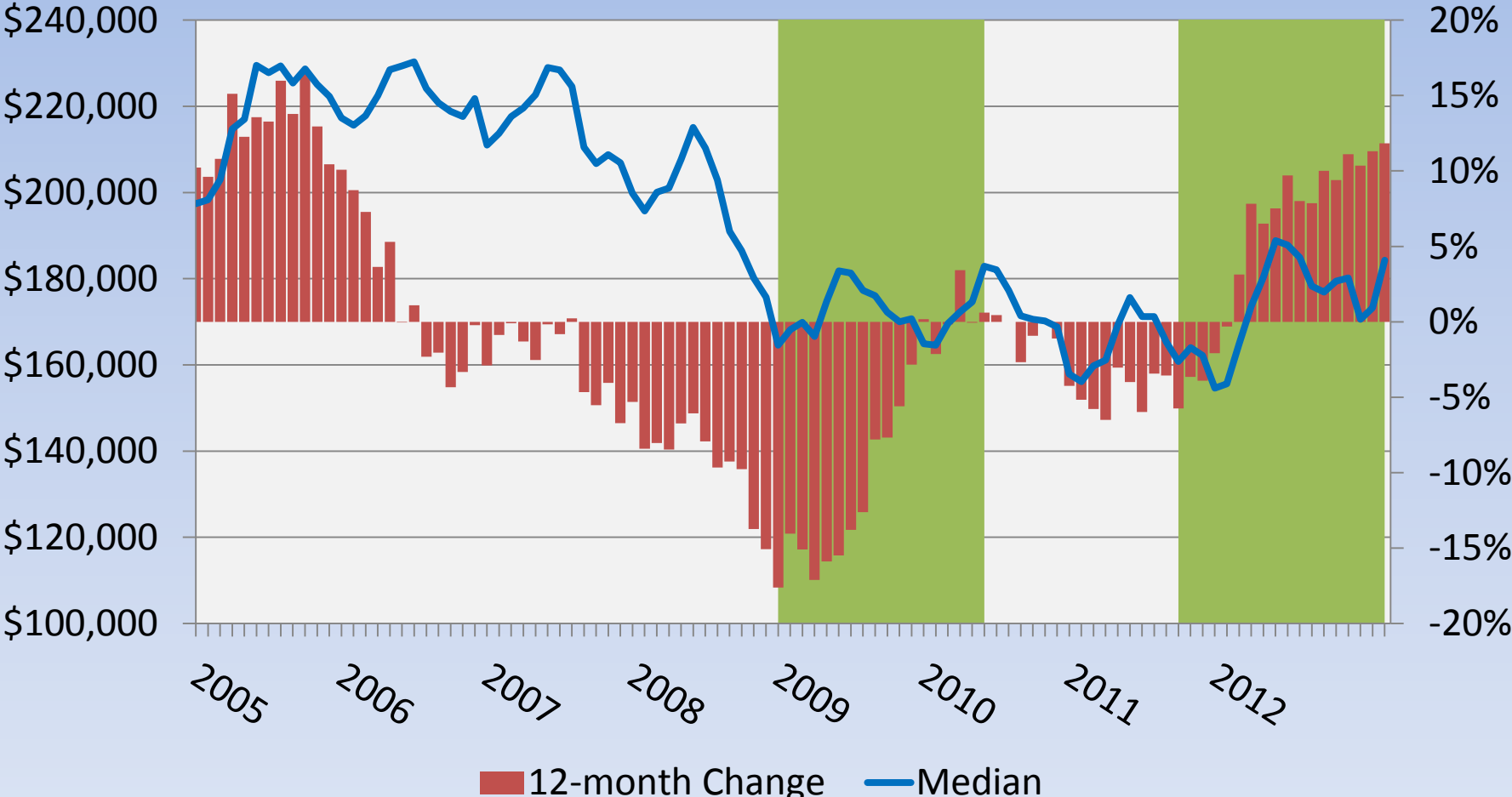
Existing Home Sales



Supply Fell as a Result



Prices Responded to Low Months Supply

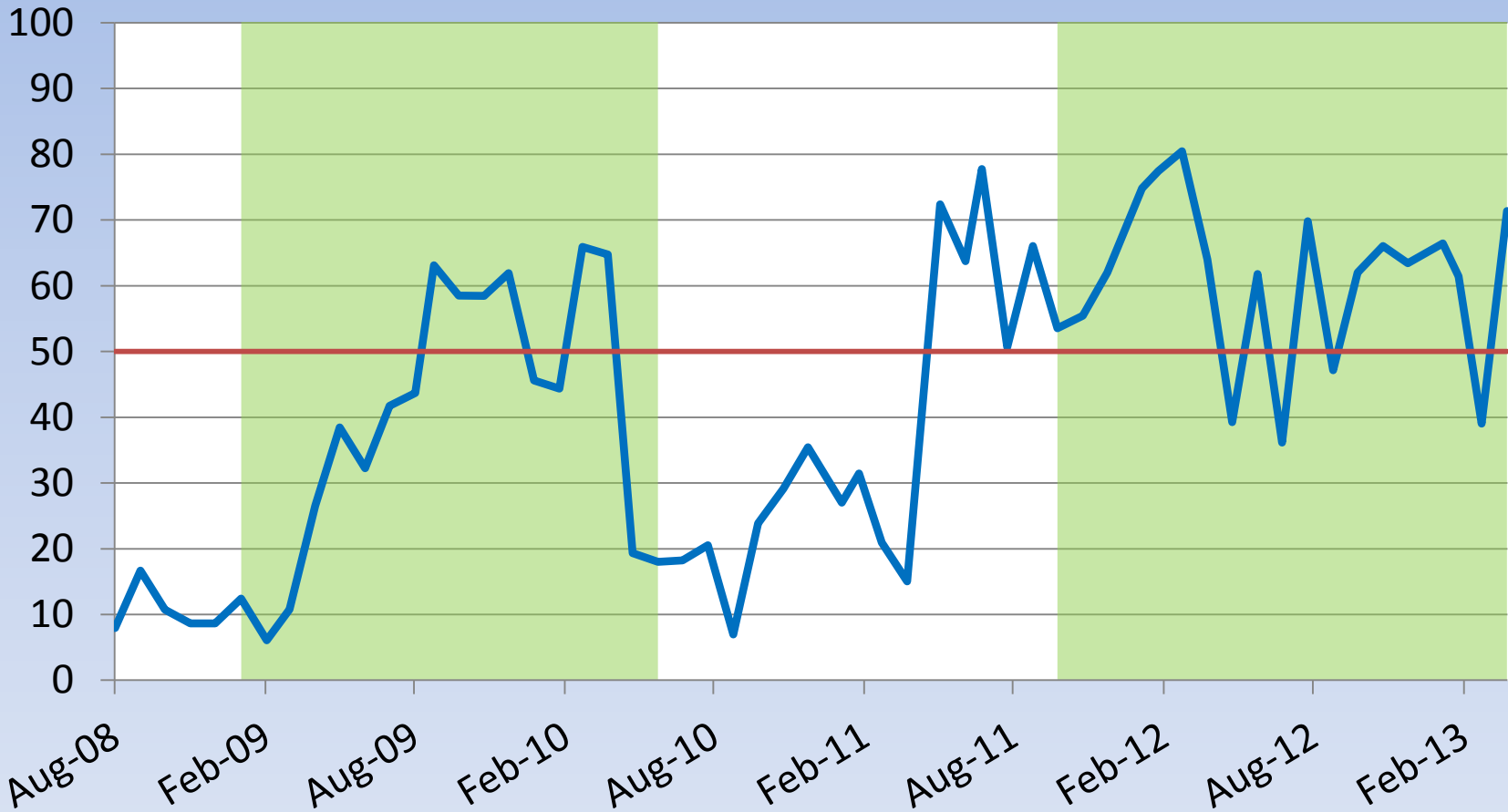


Source: NAR

SUPPLY AND DEMAND

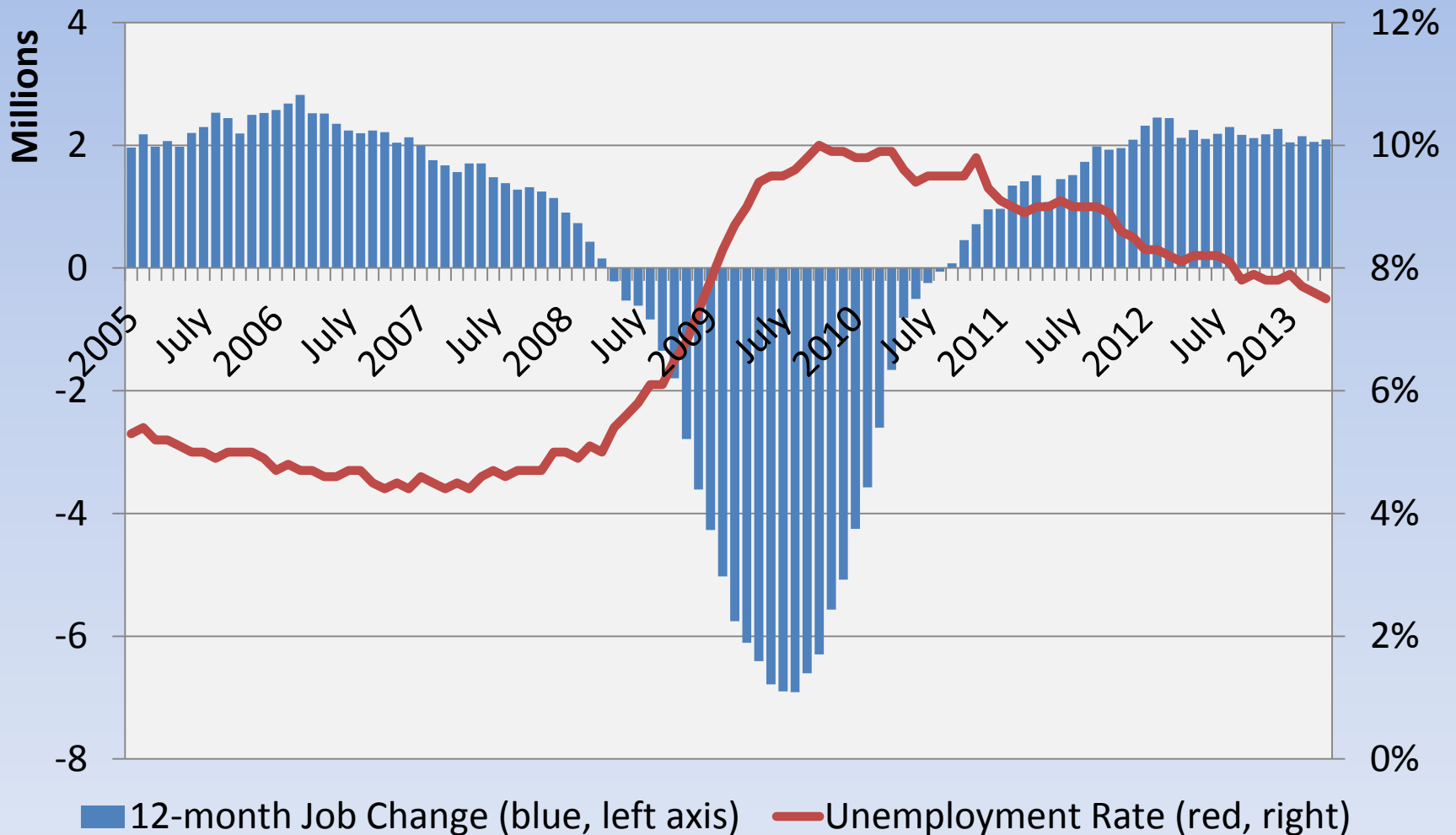
Strong Demand Underpins Fundamentals

More than 70% of markets Have Stronger Year-over-Year Foot Traffic



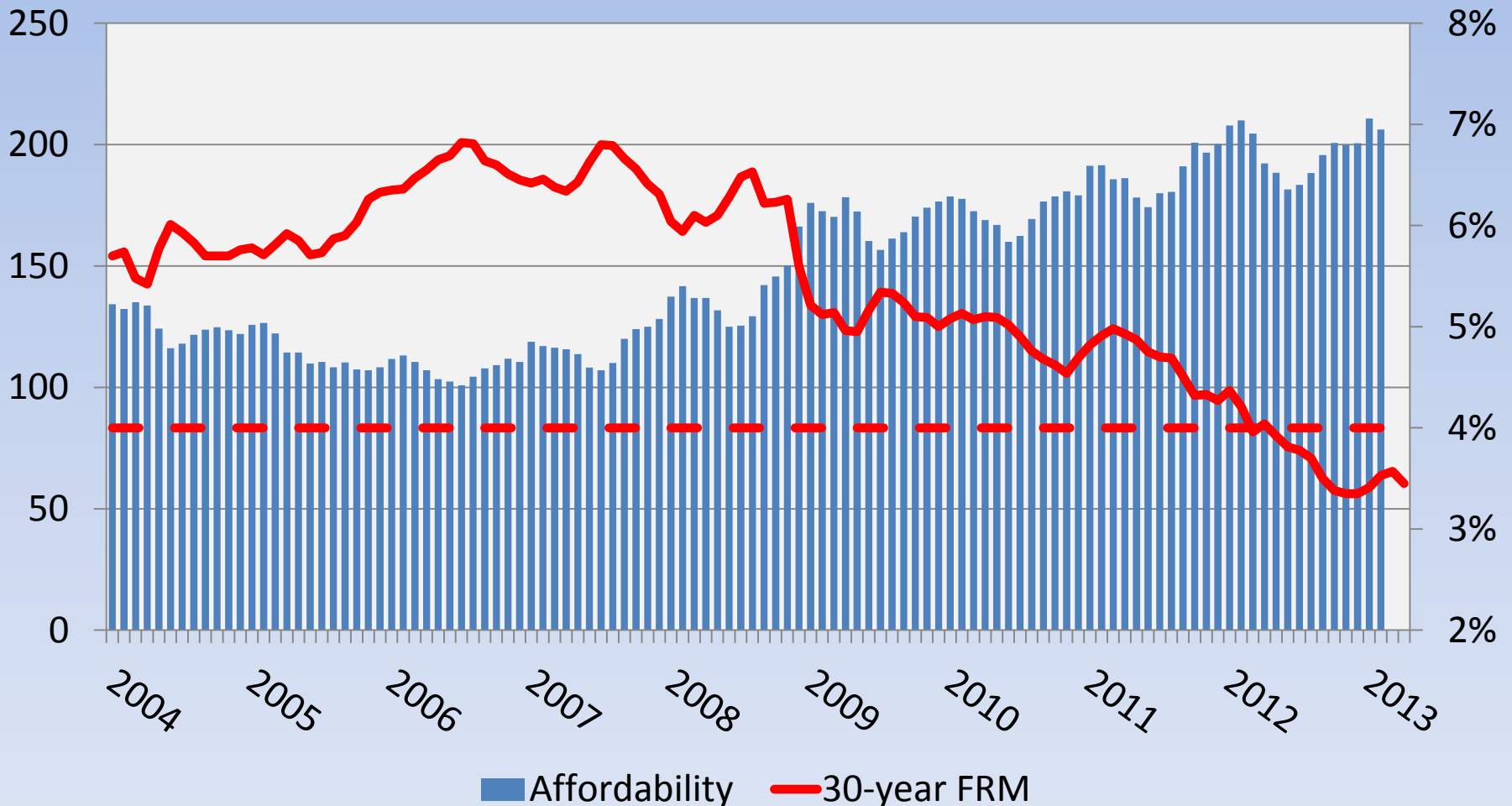
Employment Growth Steady but Fragile

Sequester Undercut Upward Trend



Sub-4% Rates Supercharged Affordability

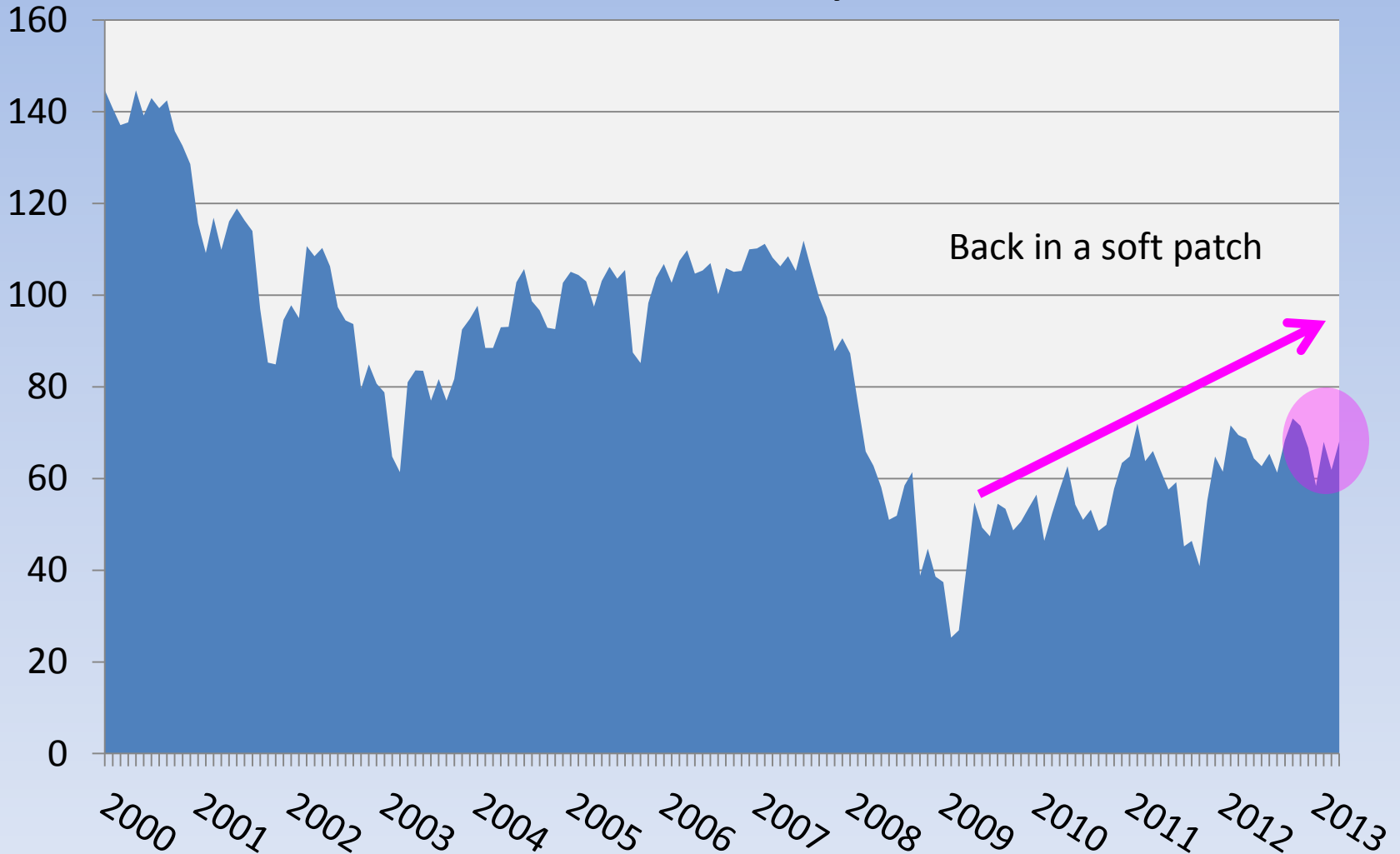
Monetary Easing in Place (QE3)



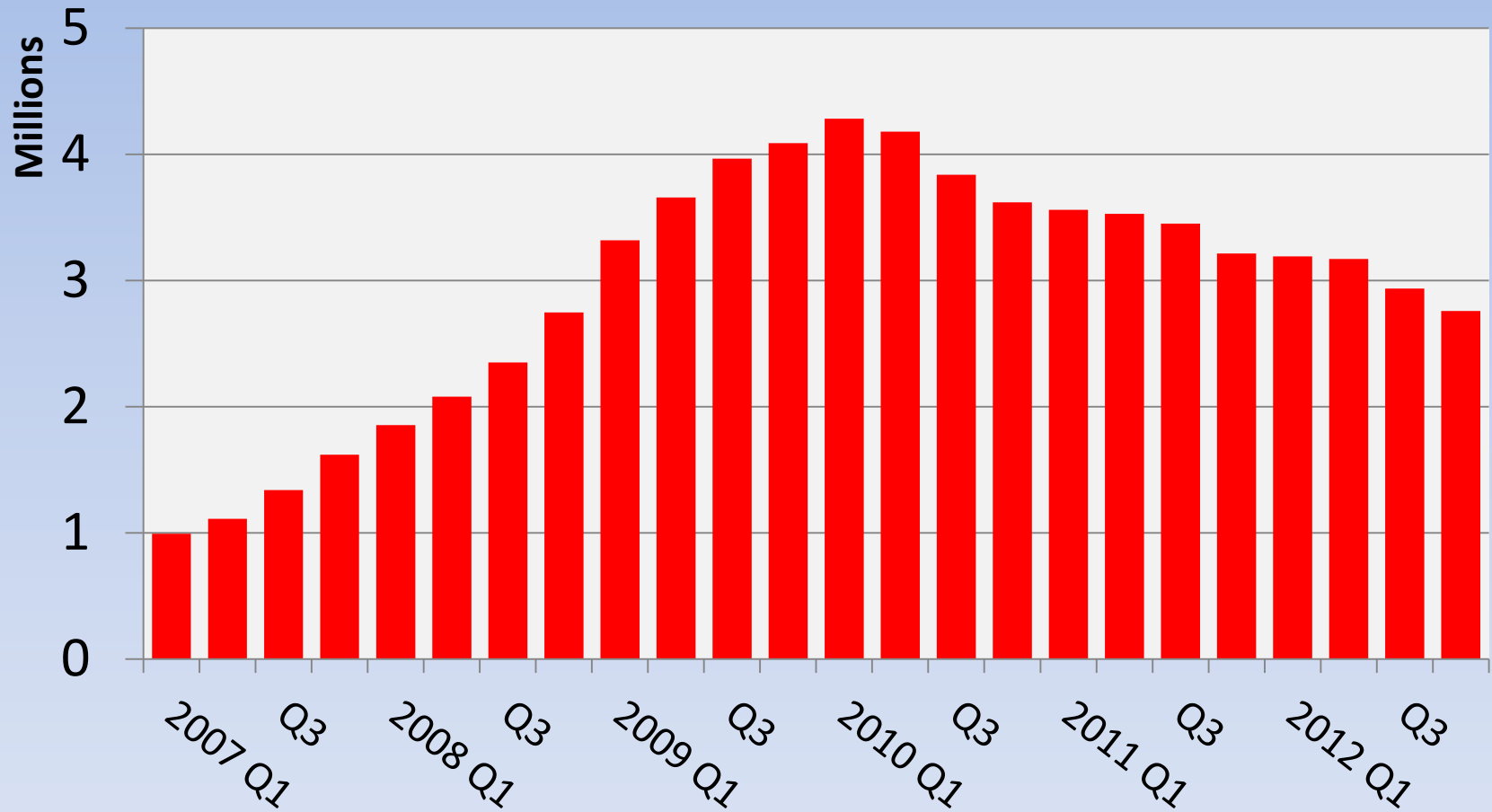
Source: NAR, Freddie Mac

Consumer Confidence Rising

Different from Home Buyer Confidence

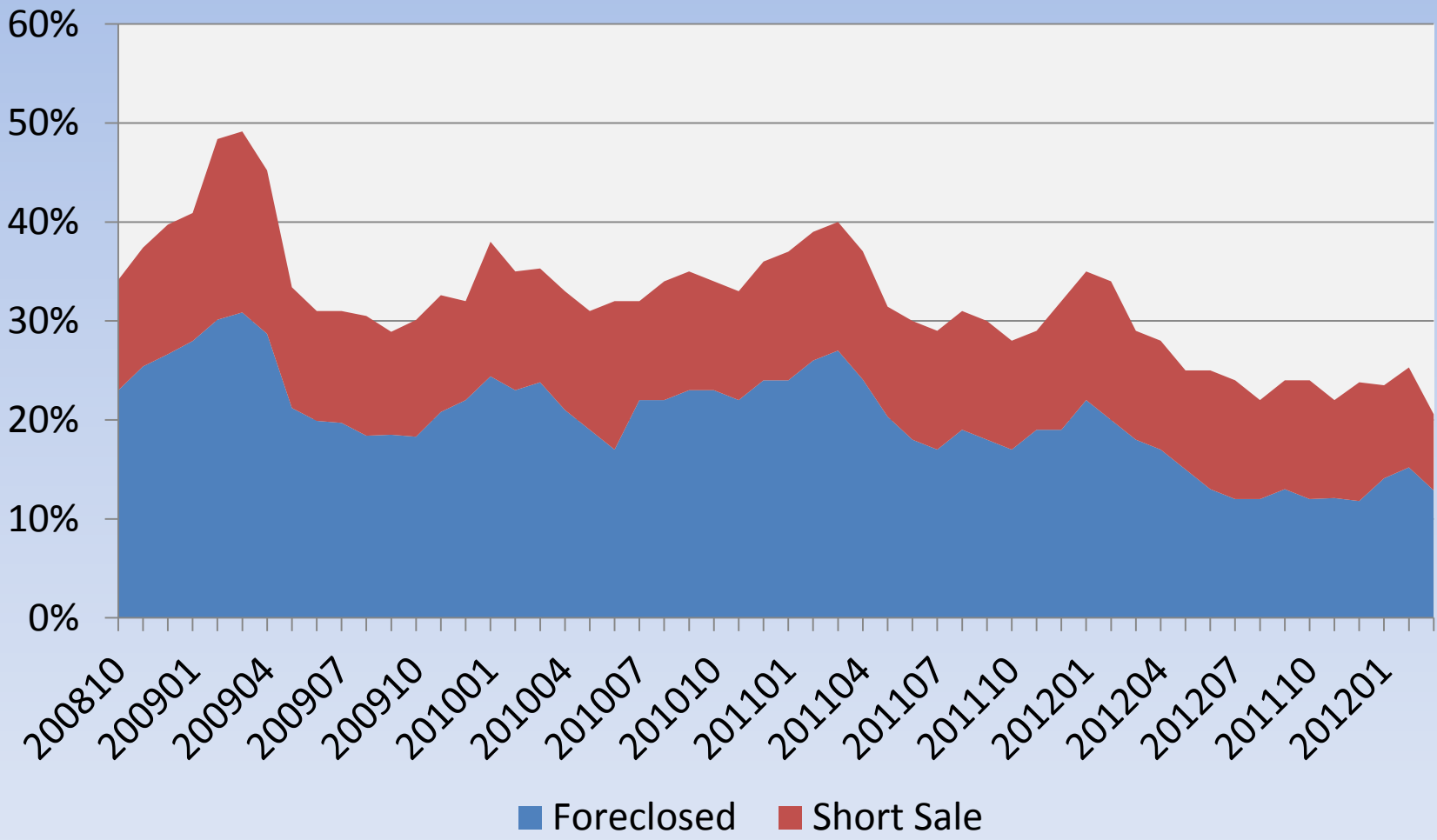


Shadow Inventory Eases as Fundamentals Improve



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

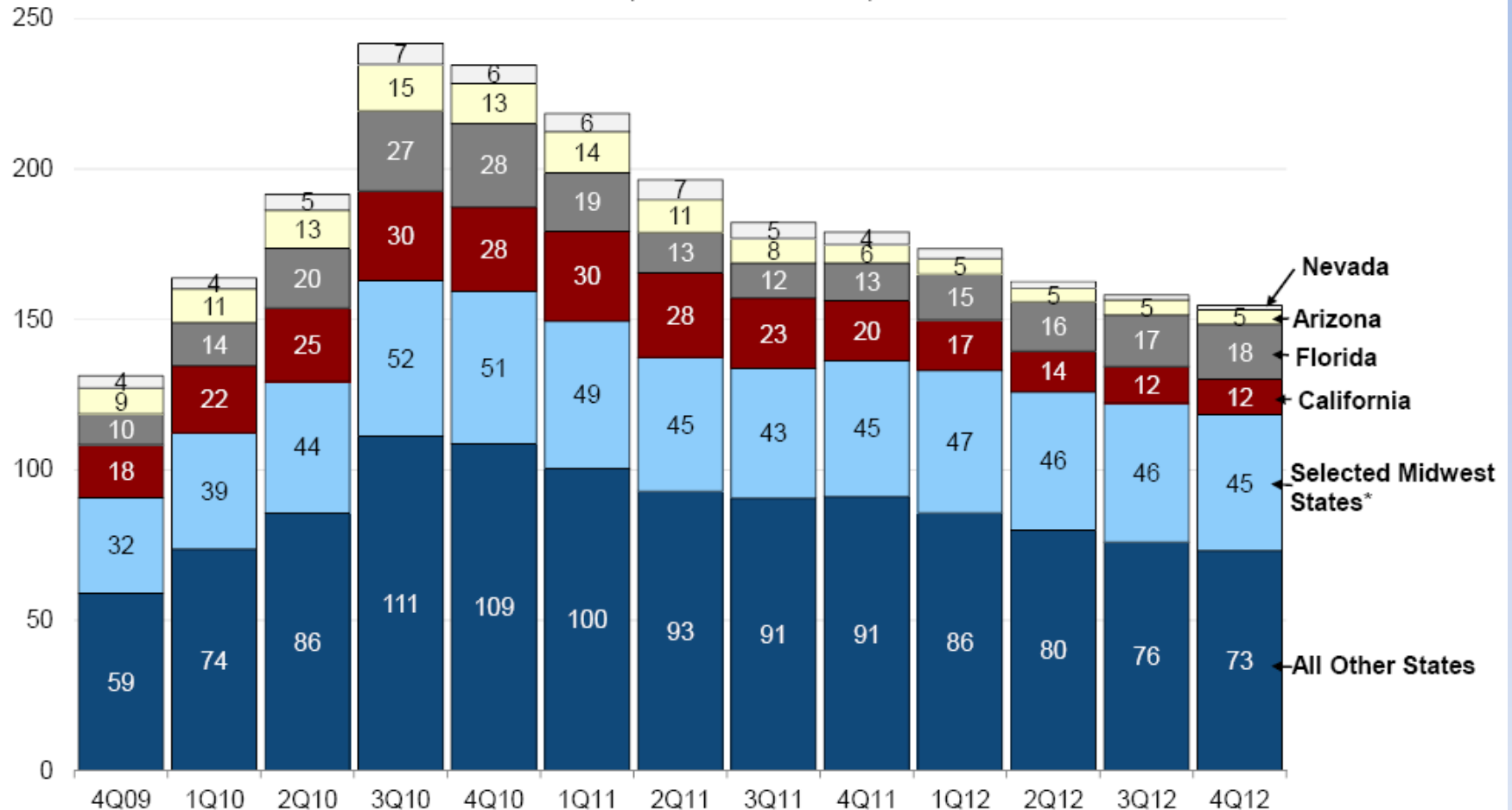
Stronger Pricing Helps Transition to Healthy Market



Source: NAR RCI

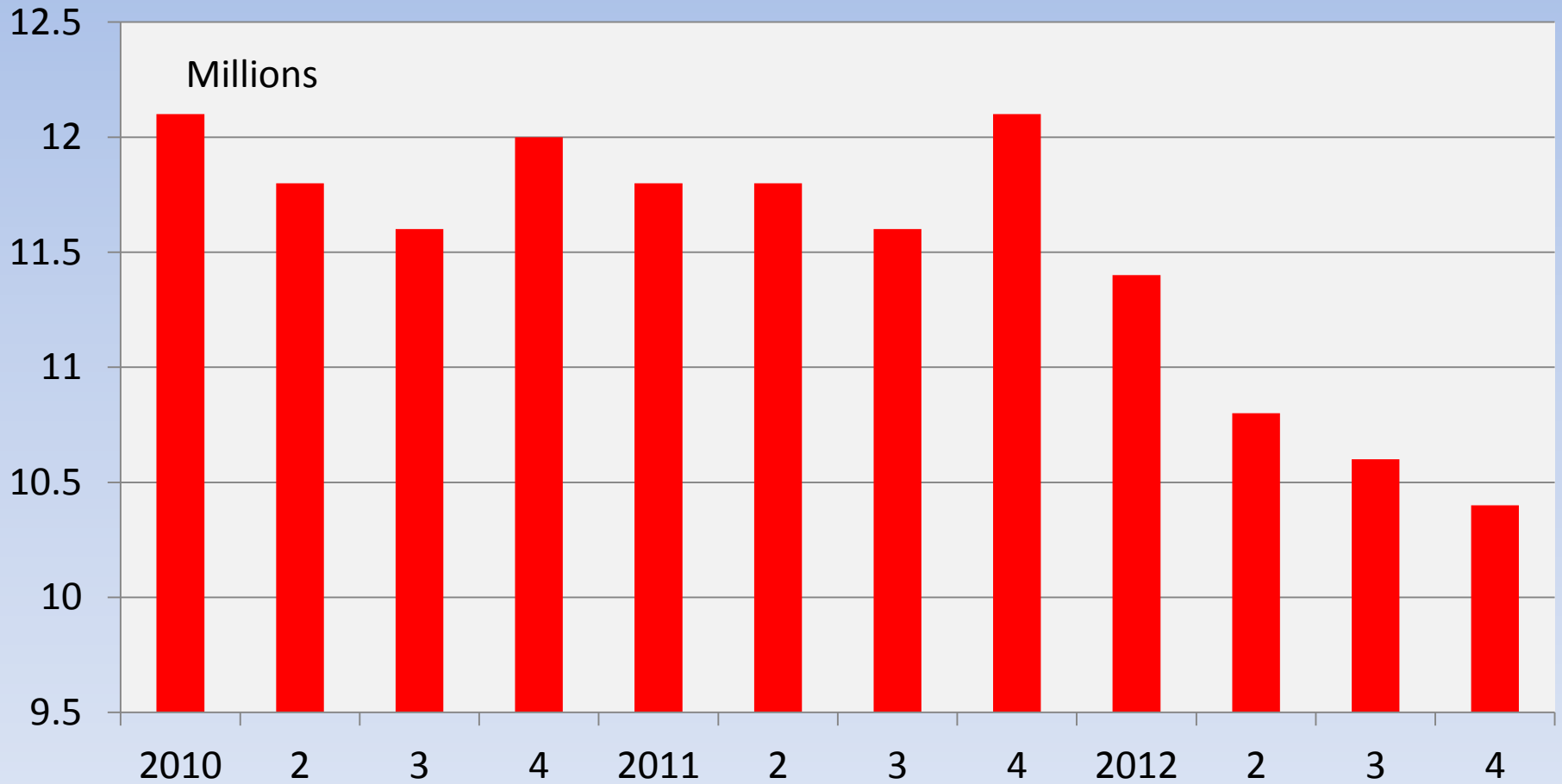
Agency REOs Down; Shift to Investors?

REO Inventory by State
(Number in thousands)



Home Prices Reduce Underwater

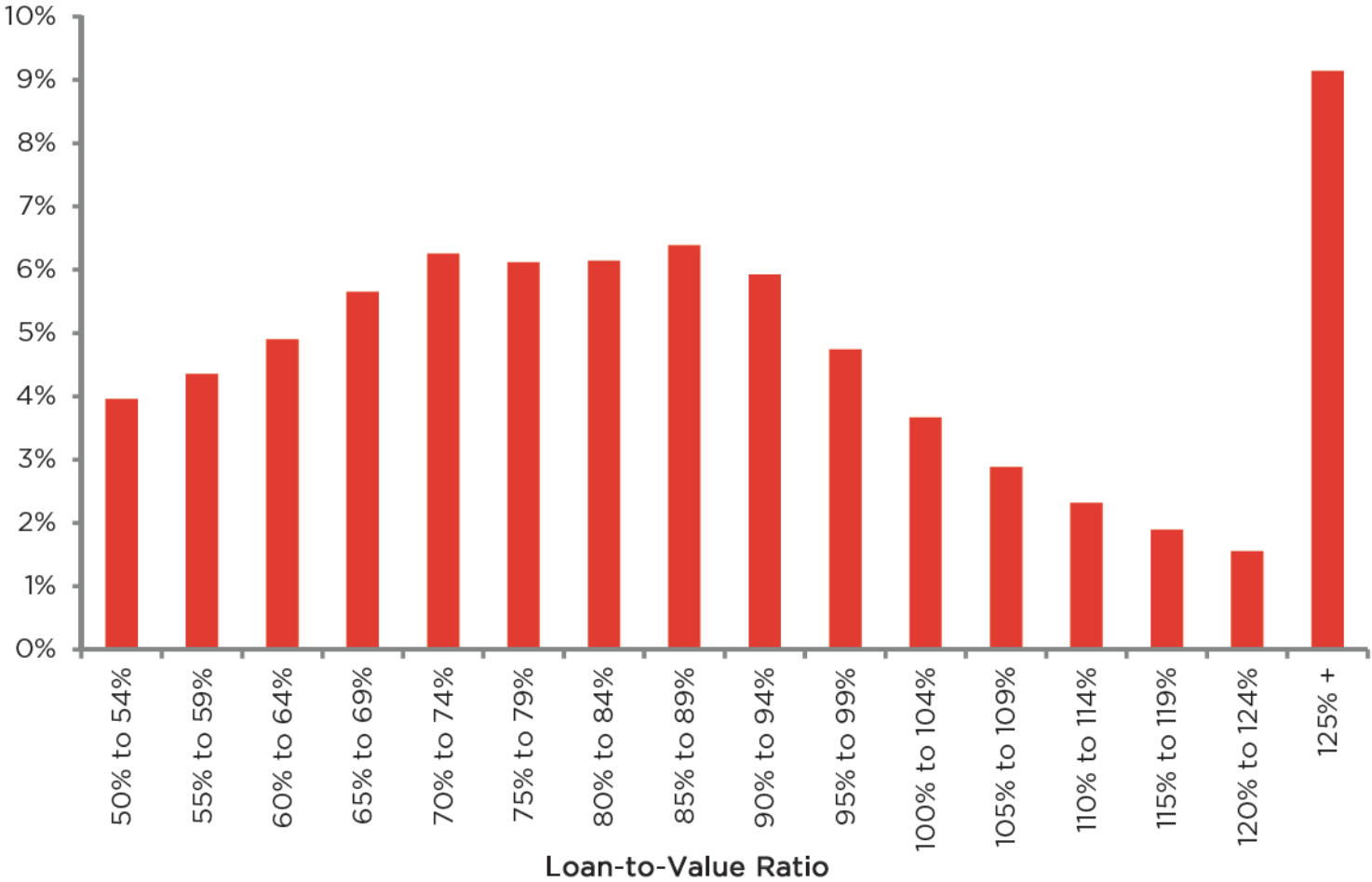
Improves Sales and Reduces Foreclosures



Source: Corelogic

Large Share Still Deeply Underwater

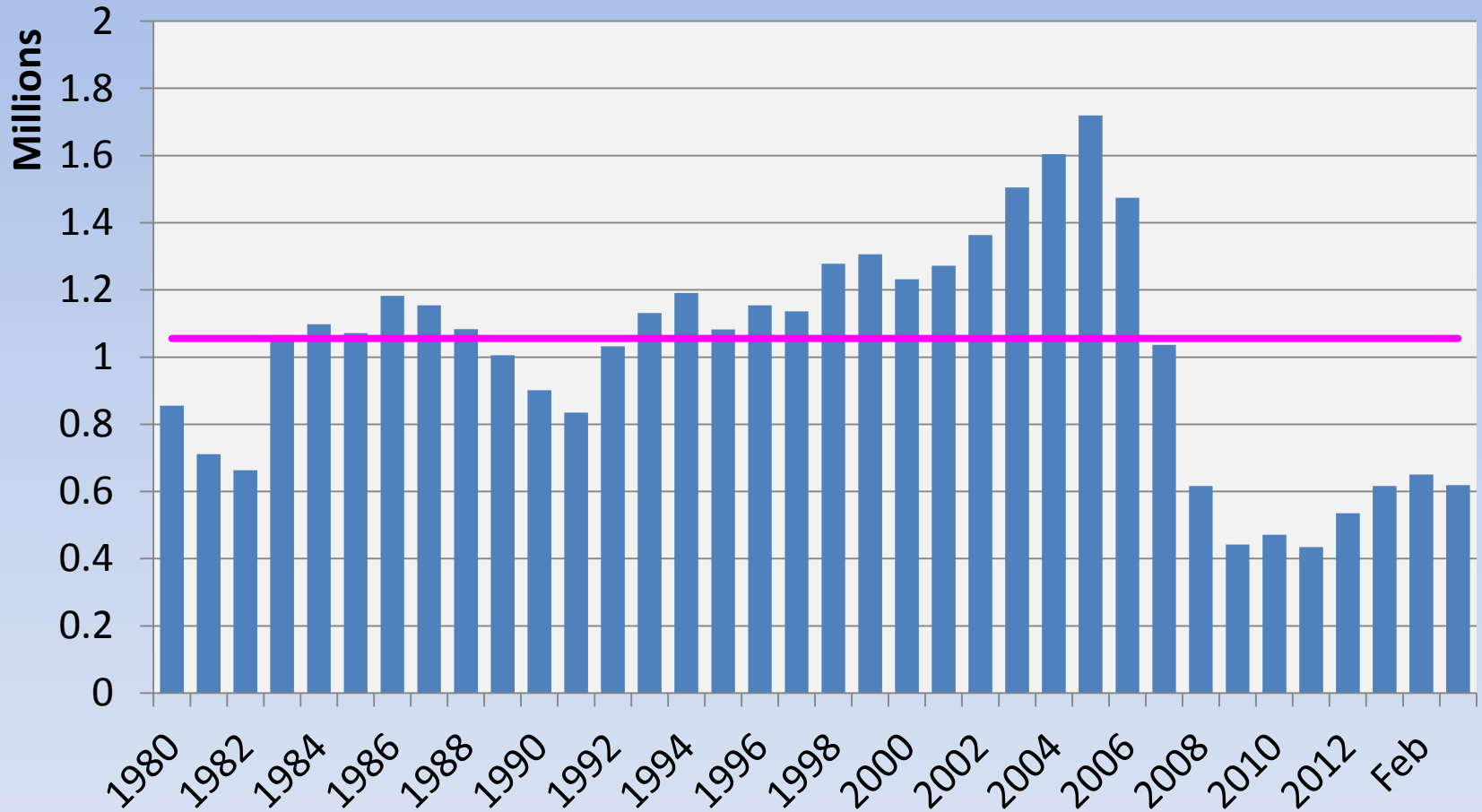
Appreciation Will Help Many More, Add to Inventory



Source: CoreLogic Q4 2012

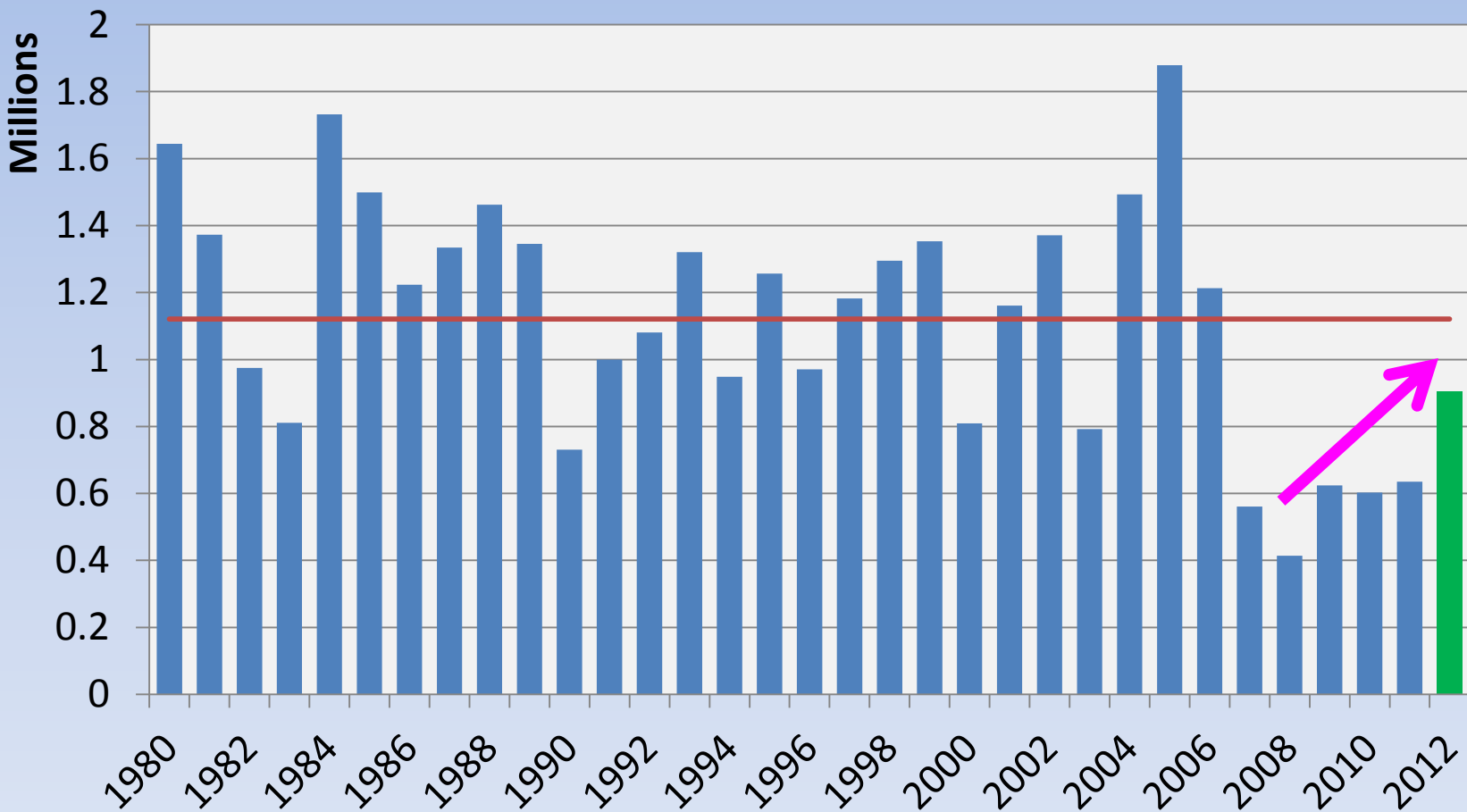
Construction is Up, but Weak:

Good for Inventories and Prices, but Bad for Employment



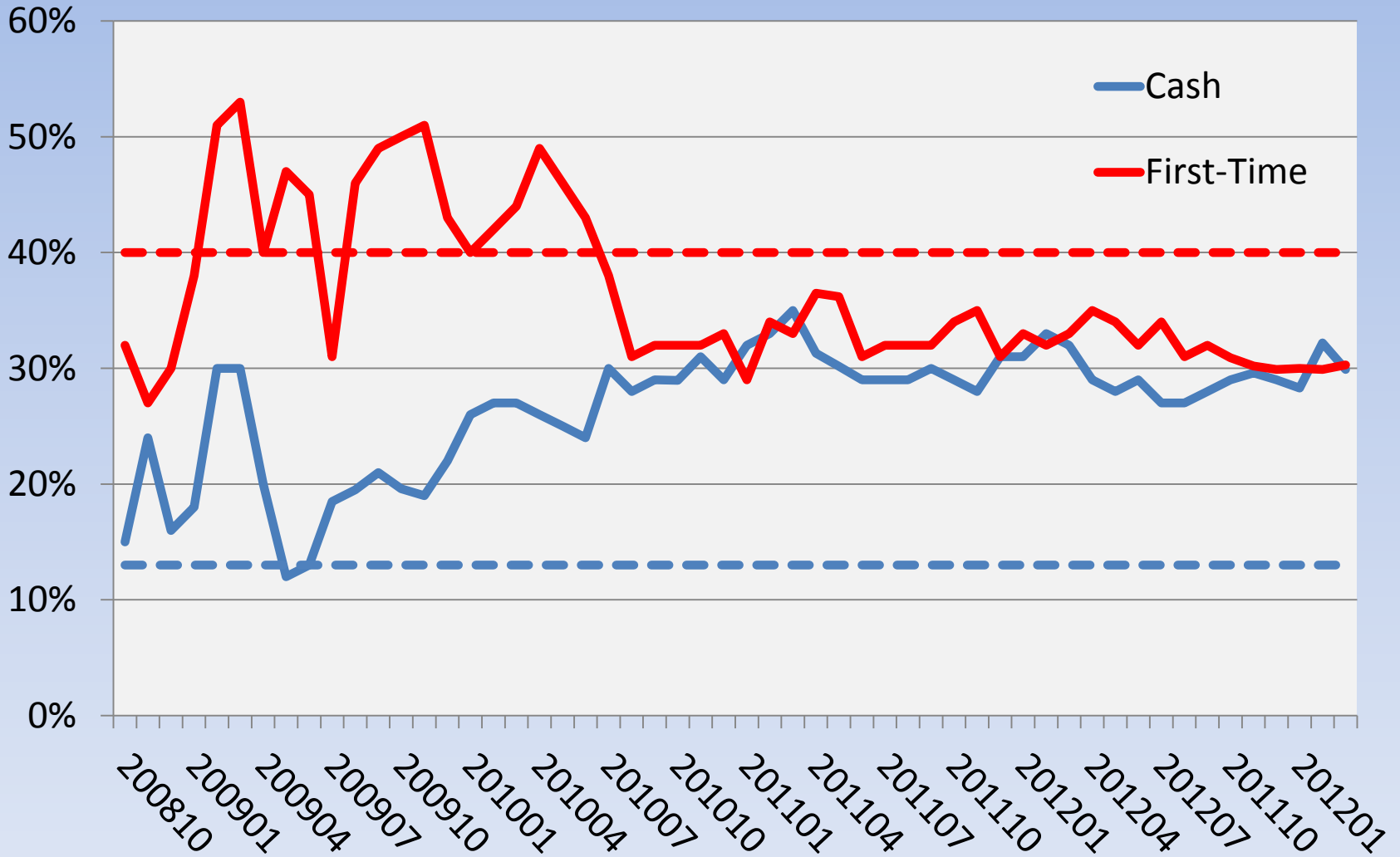
How much new construction is in the Pipeline?

Household Formation: Tepid, but in the Right Direction



Source: Census

Financing Still Skewed



Source: NAR

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

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

FHA: 97 LTV / 580 FICO / 50+ DTI

PRIVATE MI: 97 LTV / 660 FICO / 41-45 DTI

GSEs: 95-97 LTV / 700-720 FICO / 41-45 DTI

Average Characteristics of Closed Mortgages*

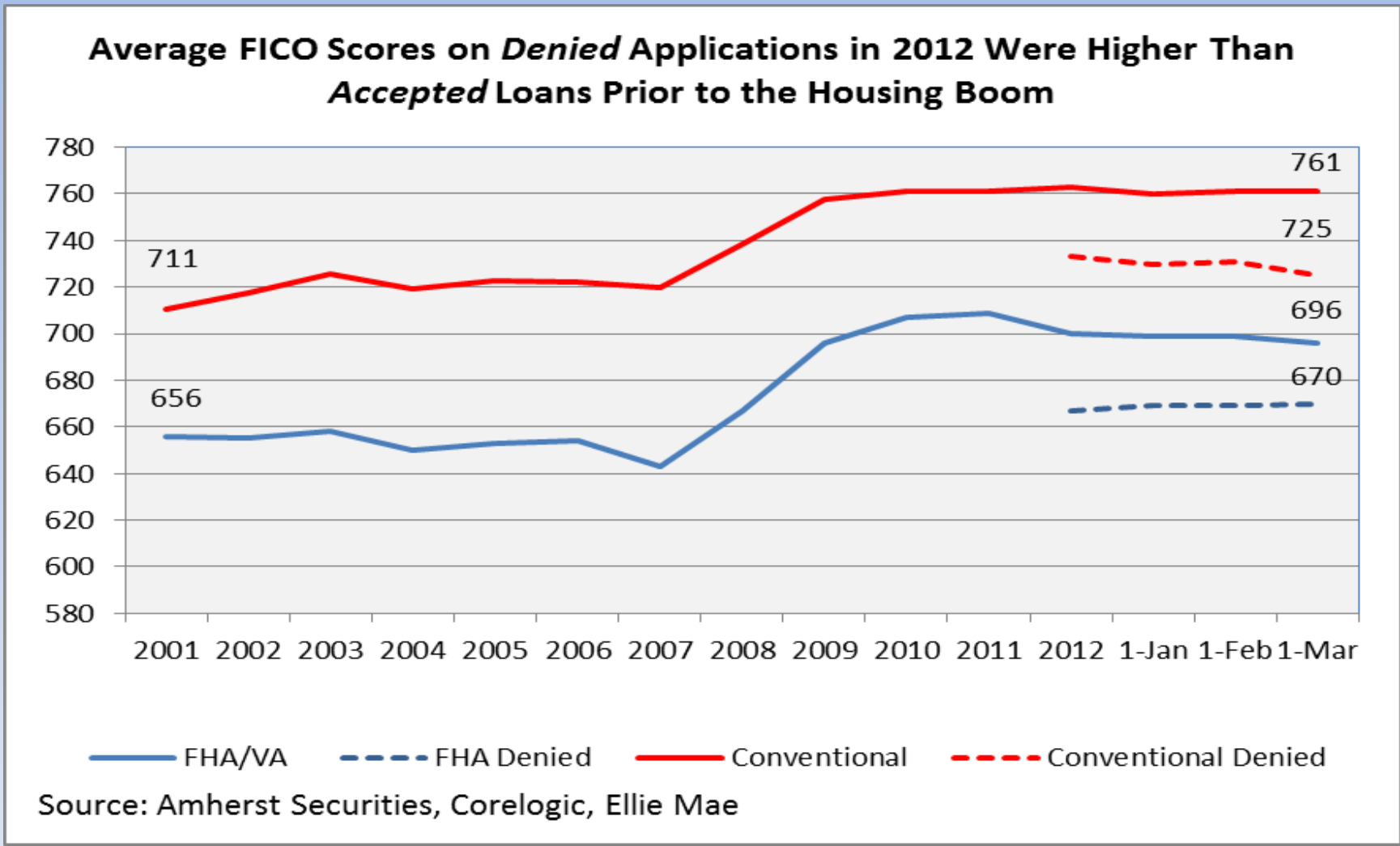
FHA: 95 LTV / 696 FICO / 40 DTI

Conventional: 80 LTV / 761 FICO / 33 DTI

*Ellie Mae – March 2012

*Source: Ellie Mae (Sept. 2012)

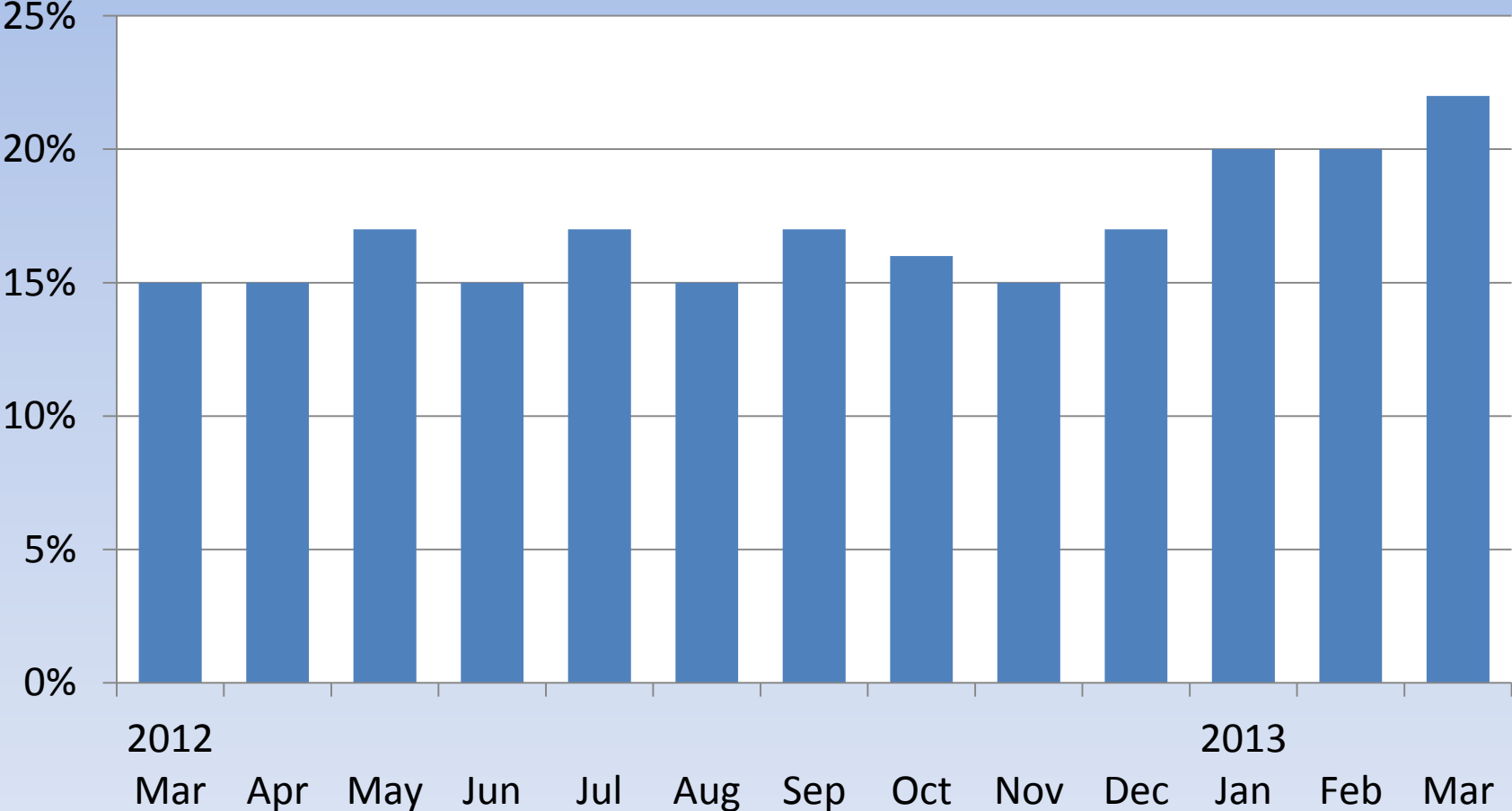
Tight Lending Holding Back Sales 10%-15%



Source: Amherst Securities, Corelogic, Ellie Mae

High LTV Share Rises at GSEs

New Capital in MI or Comfort with R&W Risk?

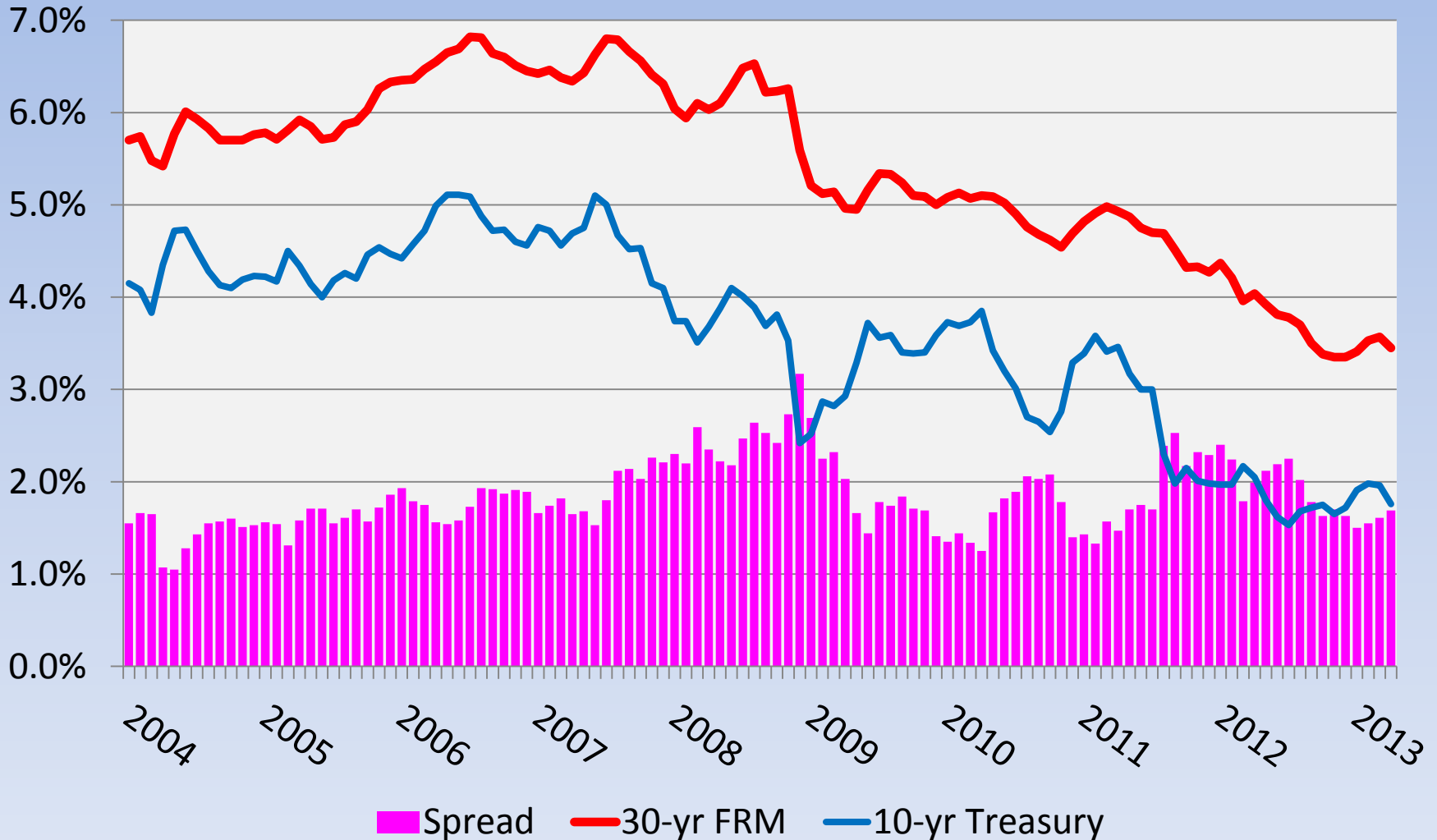


Source: FHFA

CAPITAL MARKETS

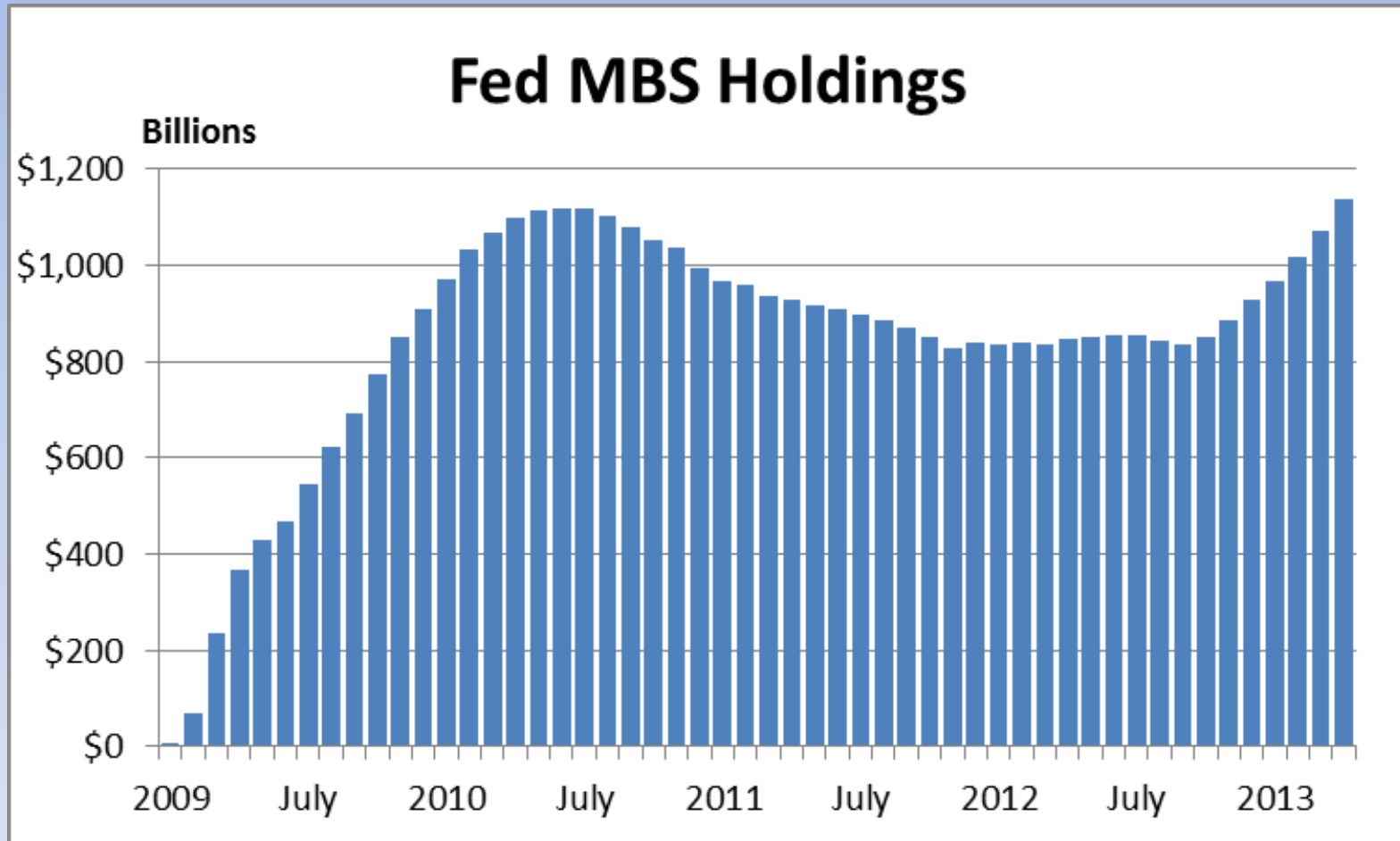
Sub-4% Rates Supercharged Affordability

Monetary Easing in Place (QE3 and)



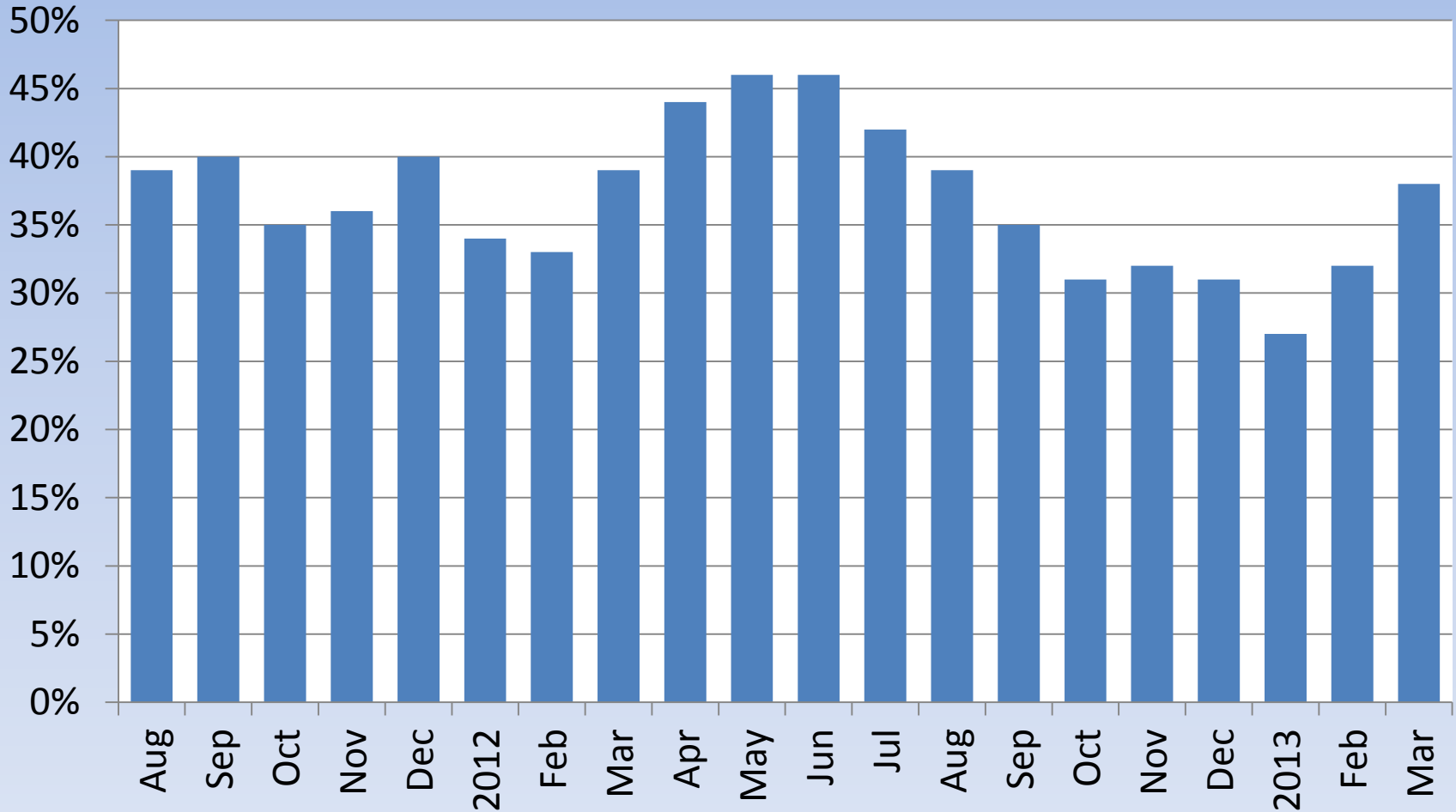
Source: NAR, Freddie Mac

At a Price: Fed's LSAP Program



How long can it last? What is the Fed's exit strategy?

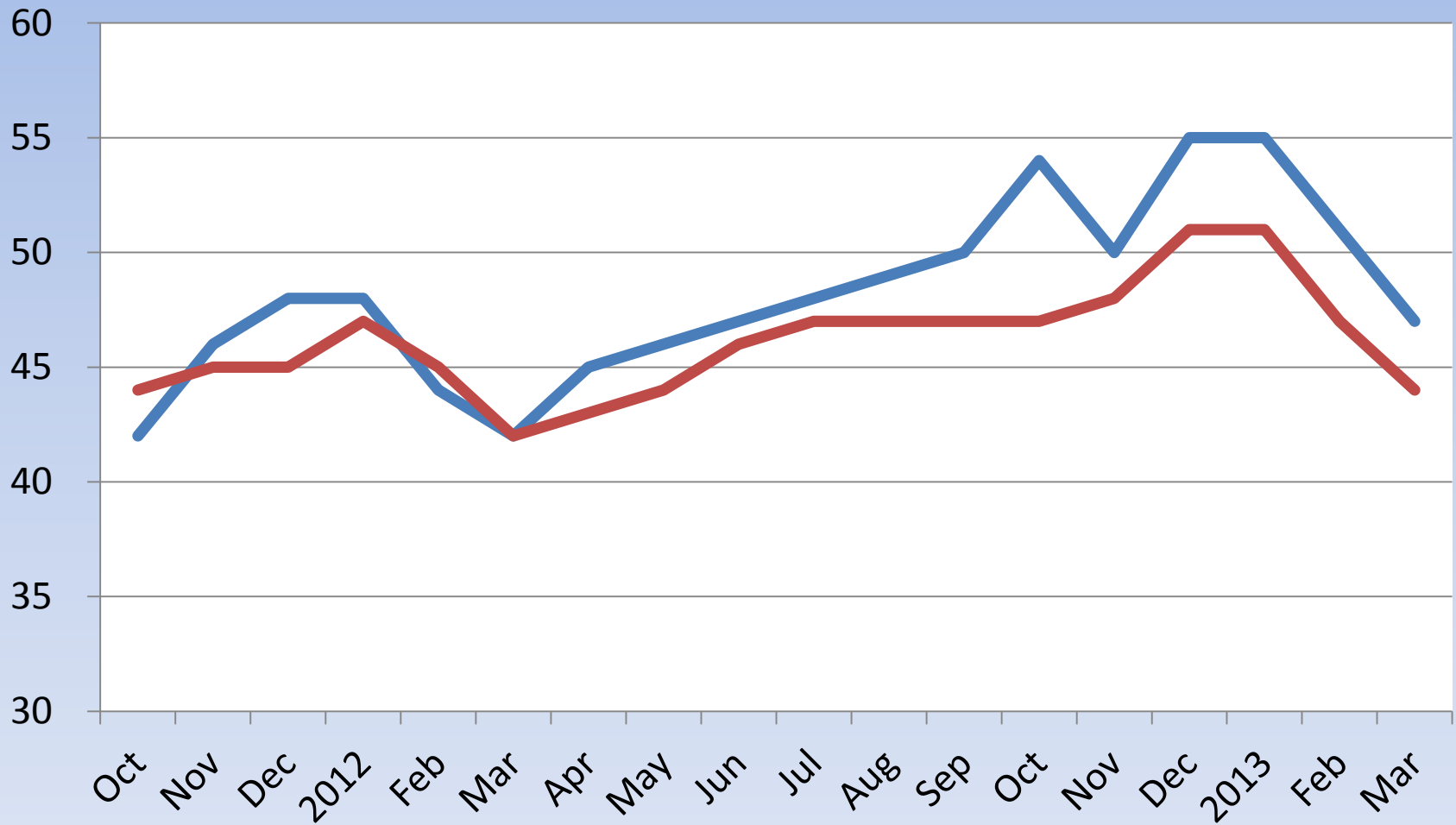
Higher Rates May Help Open Credit Box Purchase Share of Originations



Source: Ellie Mae

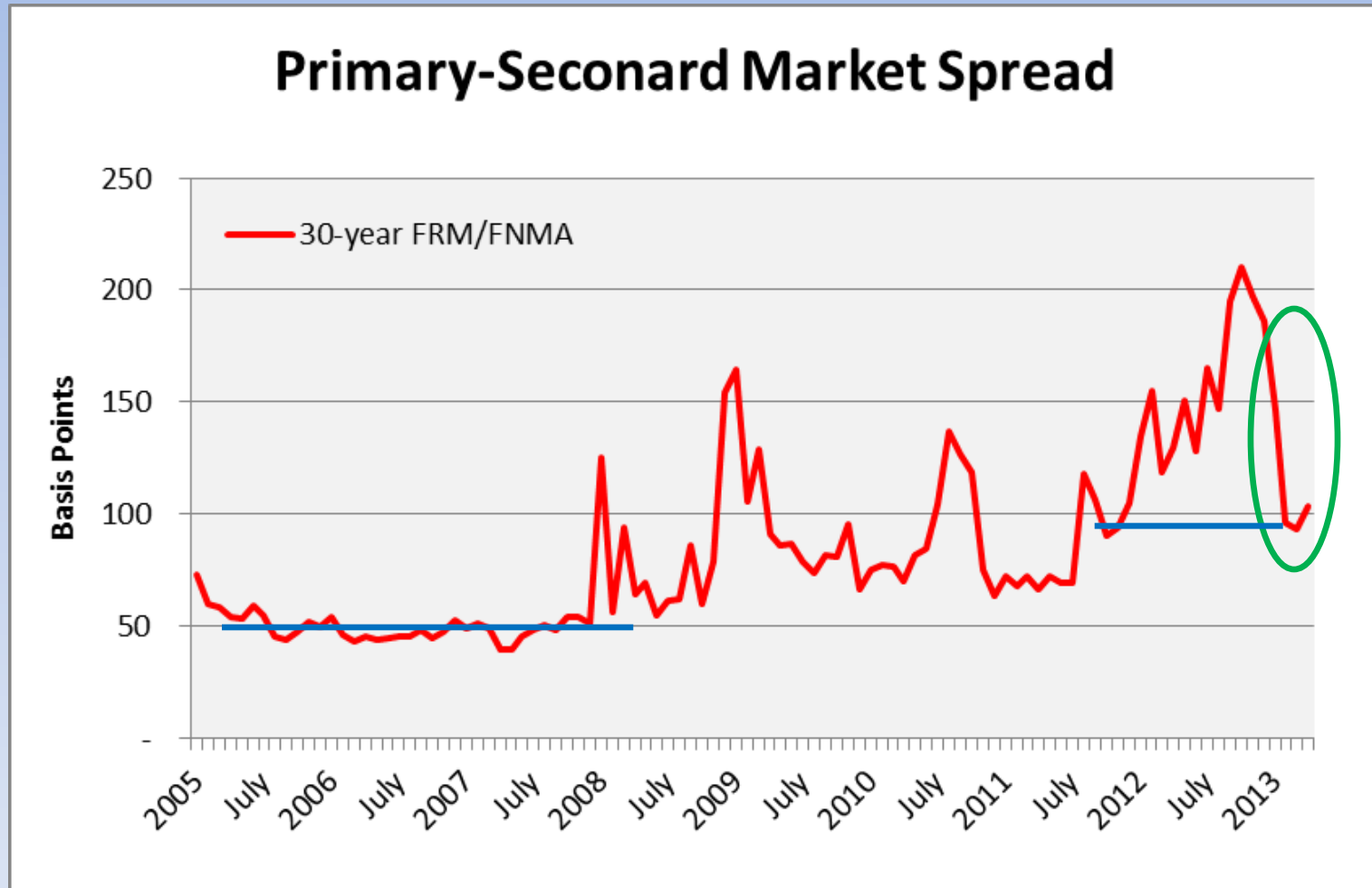
Time to Close Loan Improving

Improvement Reflects Hiring: Shift to Purchase Soon



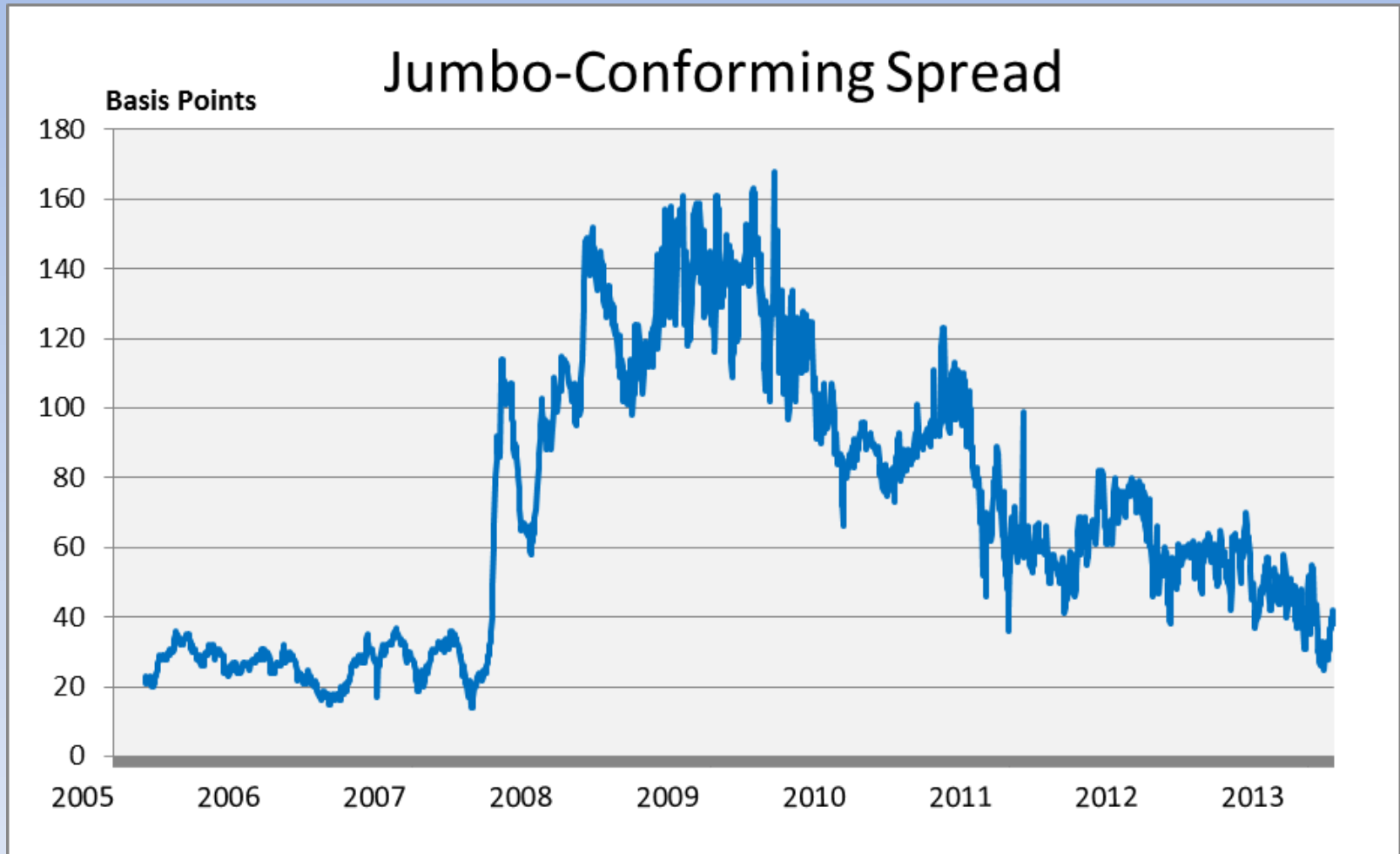
Competition and Staffing Help Rates

Permanently Higher Spread Due to Underwriting Costs?



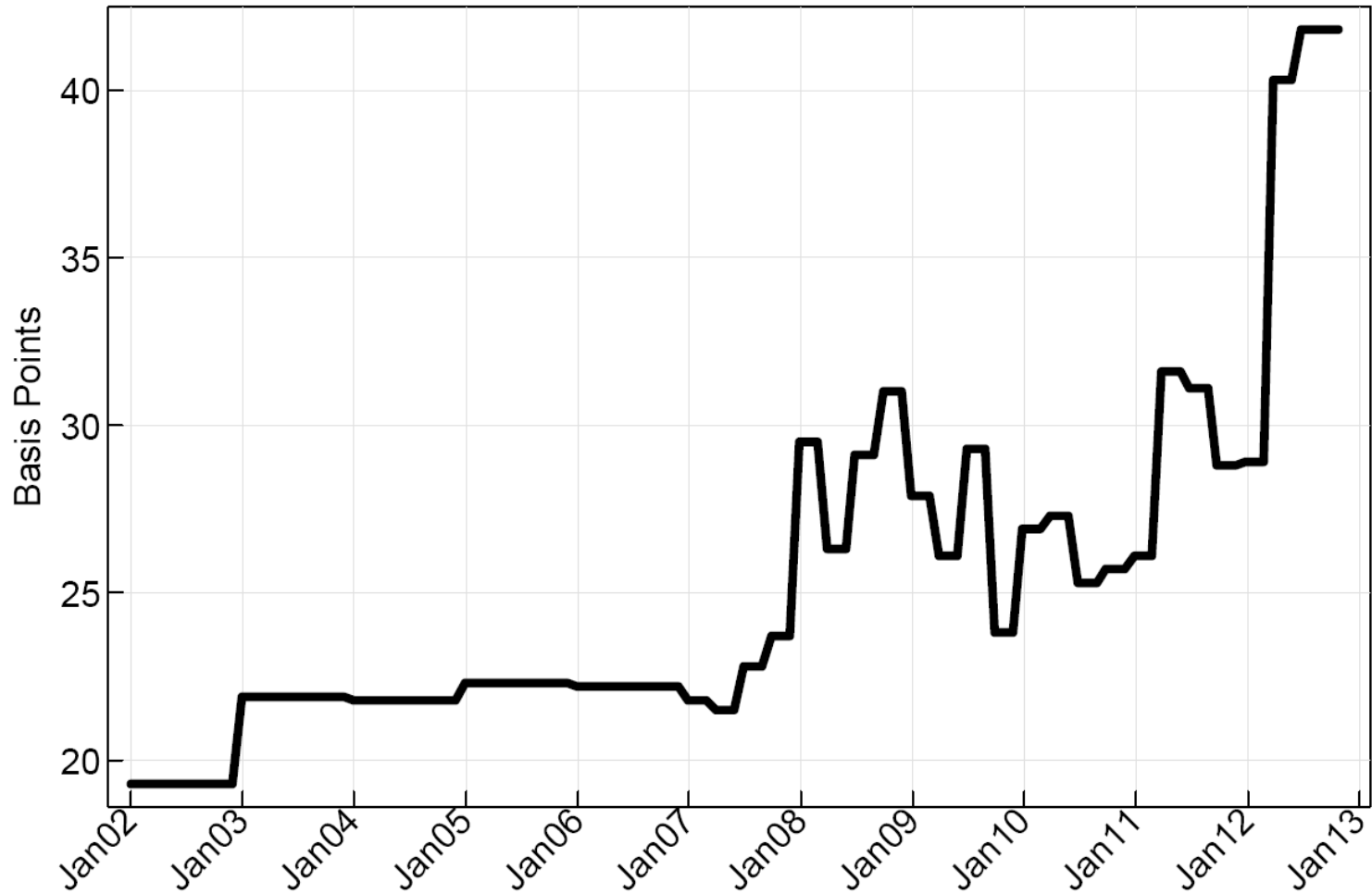
Permanently Higher Due to QM?

Falling Spread Helps Jumbo Market



Source: Wall Street Journal

G-Fees Are Adding Up



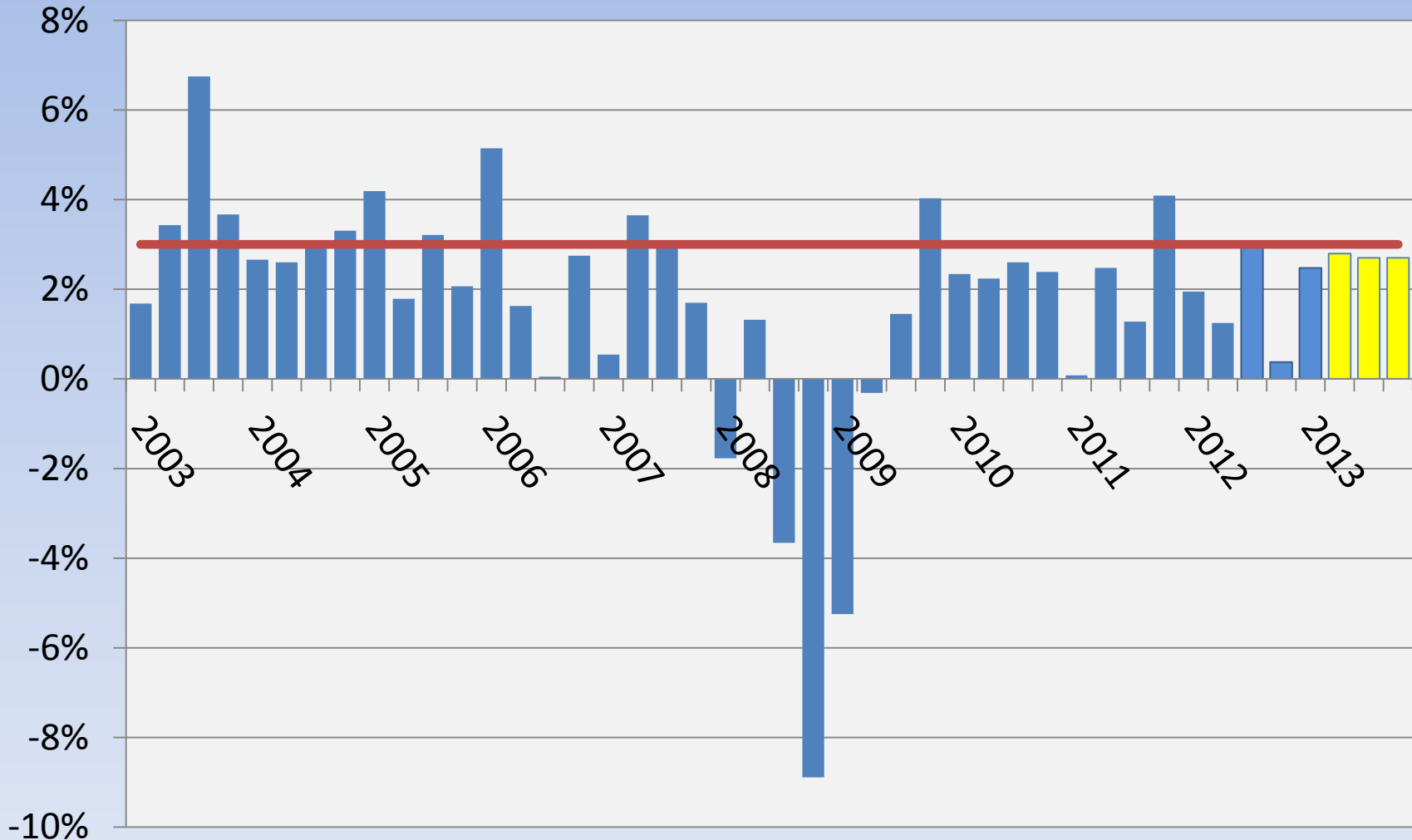
Source: Fannie Mae 10-Q, various issues through 2012:Q3.

Note: Series does not reflect the 10 basis point increase becoming effective on Dec 1, 2012.

LOOKING FORWARD

GDP Growth Steady, but Modest

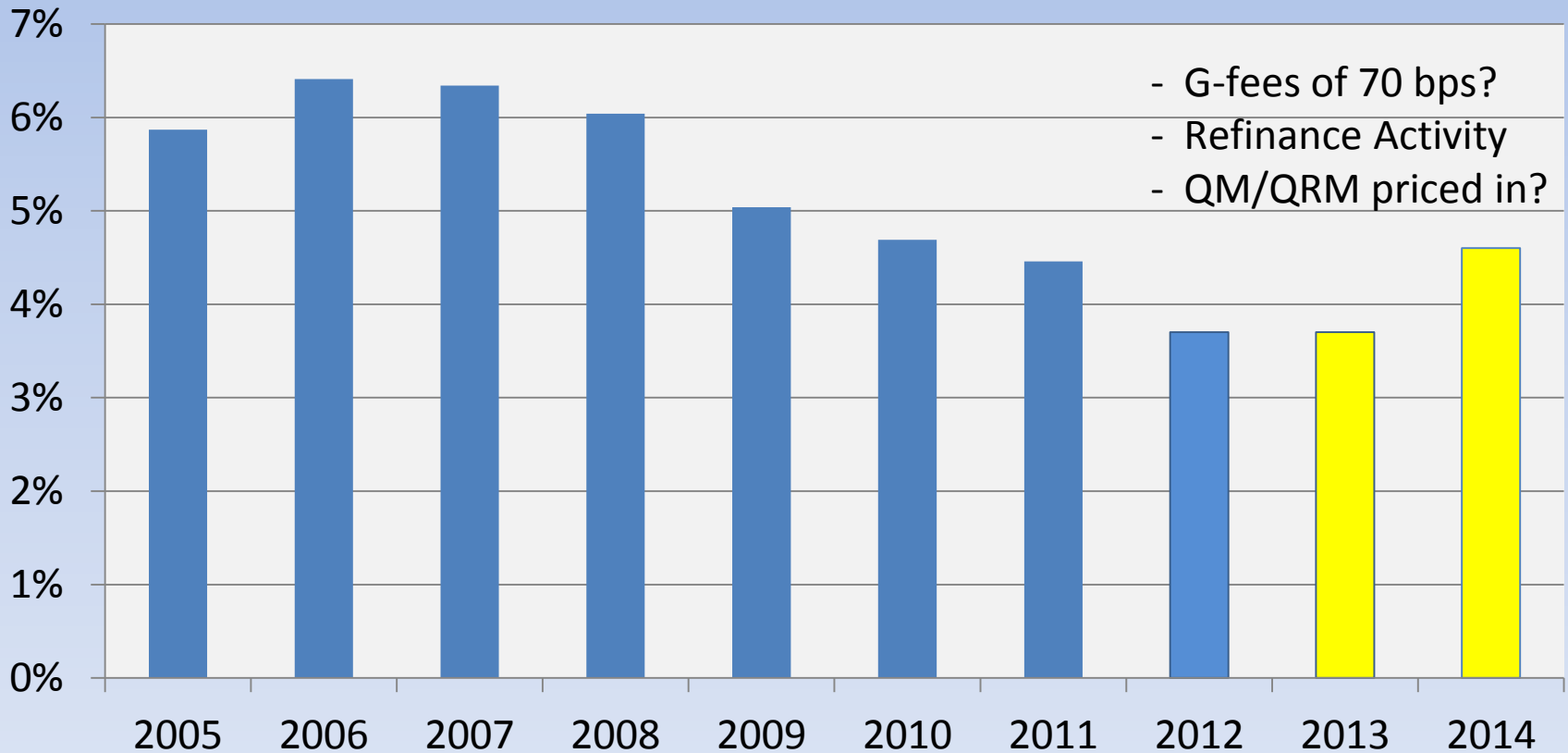
Employment Will Expand Likewise



FOMC to Keep Rates Low

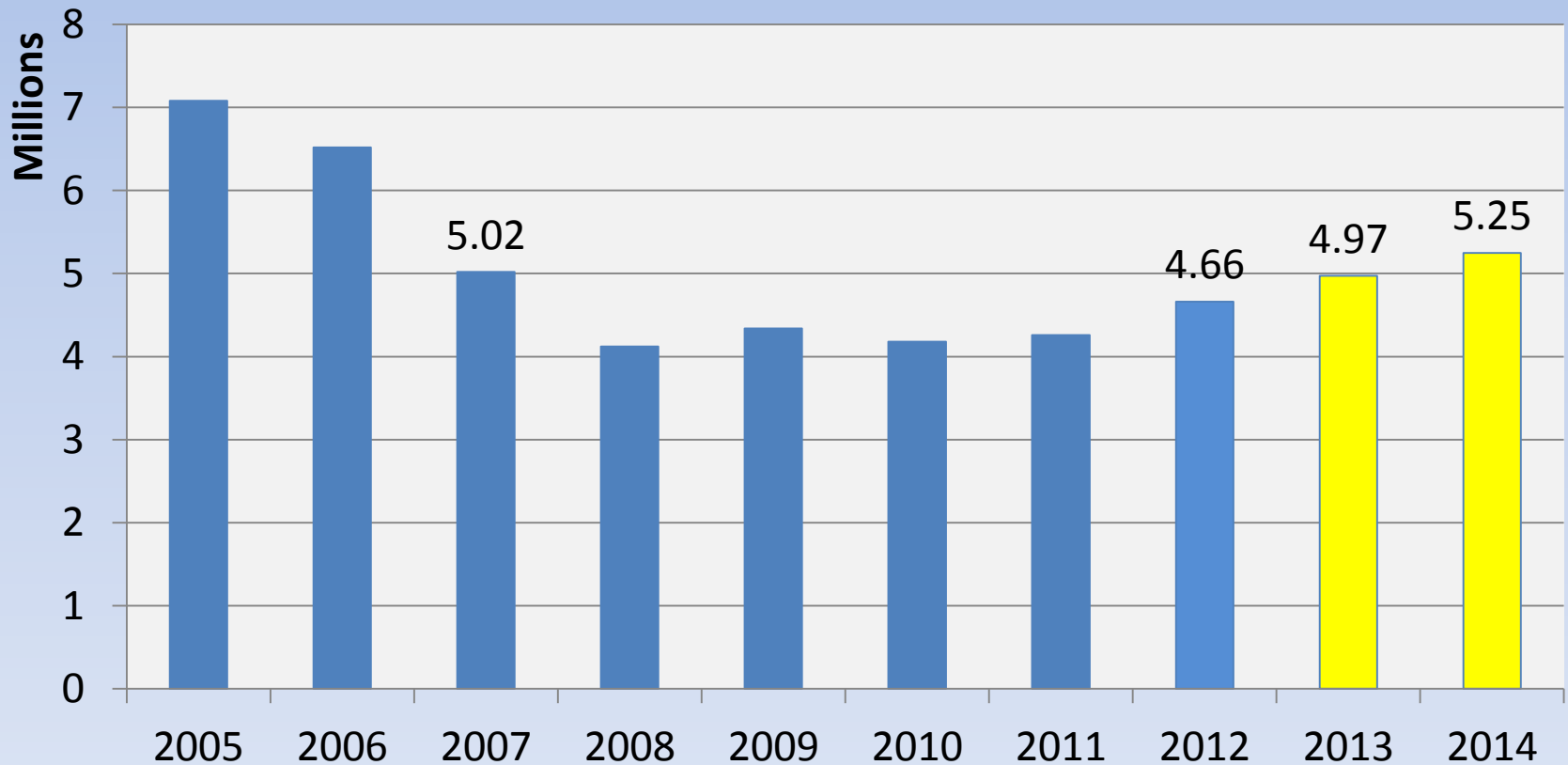
Funding/Coupon Spread to be Passed on?

30-Year Fixed Rate Mortgage



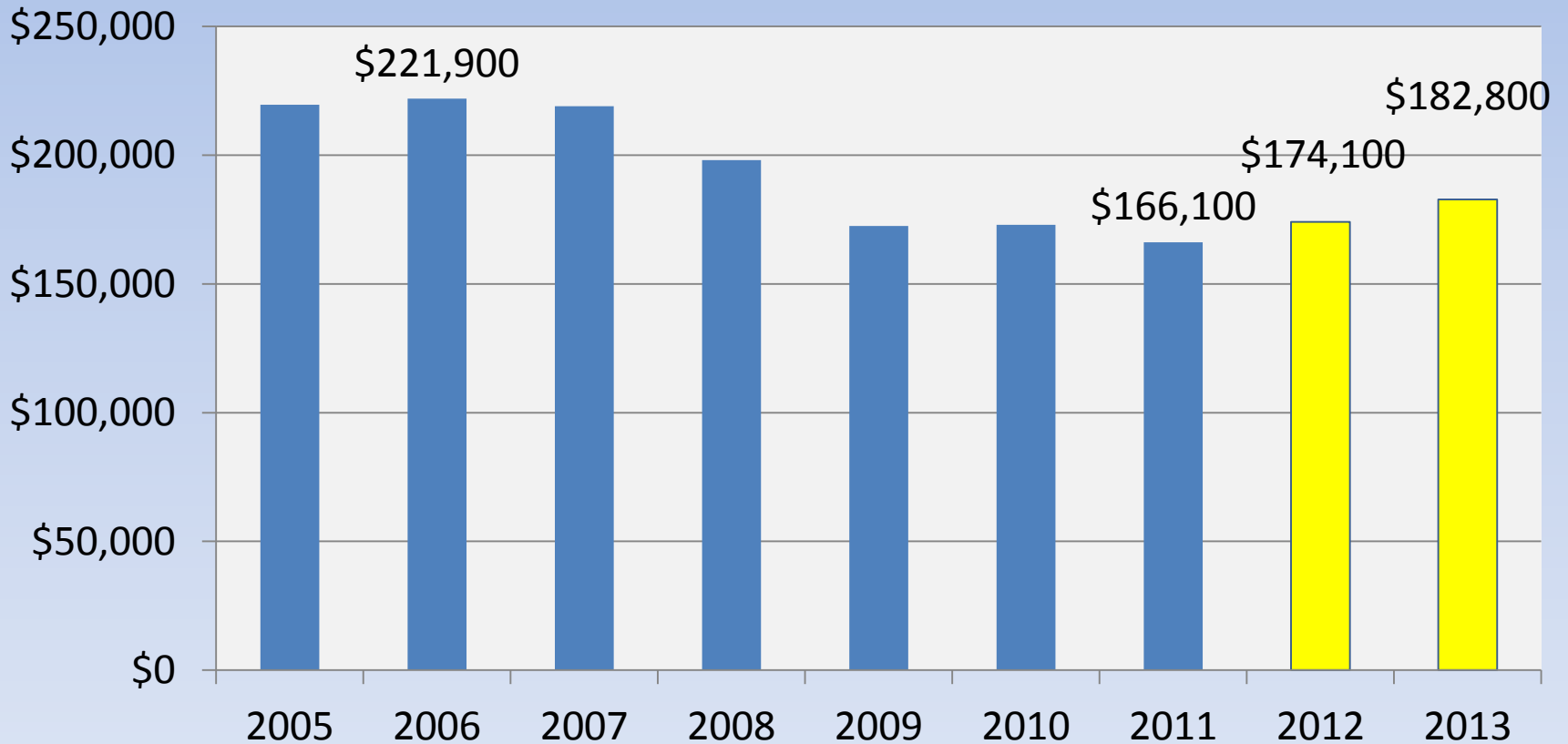
Home Sales to Expand Steadily

Existing Home Sales



Driving Price Growth

Existing Home Sales



Concerns

- Economic growth to remain modest through 2013
- QM, QRM and Basel III
- Budget cap and potential default?
- Re-emergence of shadow inventory (re-defaults, weak employment, mass refinances don't help, or...)
- Can the FED keep rates low?
- Investor Bubble?