Foreclosures Continue to Bring Home Prices Down*

FNC releases Q4 2011 Update of Market Distress and Foreclosure Discount

The latest FNC Residential Price Index™ (RPI), released Monday, indicates that U.S. home prices declined steadily in the last half of 2011. Since July 2011, prices on non-distressed properties (excluding foreclosure sales, REO sales, and short sales) have fallen 4.5% - averaging nearly 1.0% per month, according to the RPI -- the mortgage industry's first hedonic price index built on the nation's most comprehensive residential property database that blends public records with real-time appraisals of property characteristics and neighborhood attributes. The persistent downtrends in home prices are driven primarily by conditions in the distressed market where the excess supply of foreclosed and REO properties - many vacant and neglected - continue to place downward pressure on home prices.

The overall economy, however, continued to grow at an annualized rate of 3.0% in the fourth quarter of 2011. Meanwhile, the labor market began to show signs of improvement. Nevertheless, high unemployment continues to constrain housing demand despite record lows of mortgage financing costs and home price affordability.

Using data through February 2012 on sales of foreclosed and REO properties, this update shows that:

1. Distressed sales remain at elevated levels; more than 27% of total home sales in February are foreclosed or REO properties.
2. Foreclosure and REO sales are climbing in recent months, but are down sharply compared to a year ago at 32.2%.
3. Most major cities see some declines in foreclosure sales as a percentage of total home sales, led by Phoenix, Tampa, and Miami. In February, foreclosure sales in Phoenix were down to 24.4% from 48.4% a year ago, Tampa down to 20% from 39.8%, and Miami down to 23.1% from 37.9%.

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4. The median foreclosure price discount in Q4 2011 is estimated at 18.4%, down 1.8% compared to the previous quarter, or down 1.2% from a year ago.
5. Foreclosure discounts have declined to below pre-mortgage crisis levels for higher valued properties (initially purchased at more than $250,000), but remain at elevated levels for lower-valued properties.
6. In Q4 2011, low-tier properties (initially purchased at less than $250,000) account for more than half of total foreclosure sales (55%). Middle-tier properties (purchased at between $250,000 and $500,000) make up about 36%, and less than 10% are high-tier properties (purchased at more than $500,000).
7. In Q4 2011, the foreclosure price discount declined in a number of hardest hit markets, including Phoenix, Tampa, Miami, Las Vegas, and Atlanta, driven by sharp declines in the percentage of foreclosure sales.

Looking ahead, the housing market is potentially positioned for a recovery in 2012 as policies are being deployed to promote bulk sales of foreclosure and REO properties to investors for rental conversions. Because GSEs and the FHFA hold more than 50% of REO properties (source: *Calculated Risk*), the program is widely expected to help stabilize home prices and promote the housing recovery. Additionally, the recent $25 billion settlement between the nation's five largest banks and state-federal government will also prevent some properties flowing into the for-sale market.

Definition of the Foreclosure Price Discount

Using a market value-based approach, price discounts in distressed sales are calculated by comparing a property's sale price to its estimated market value, which is the price the property would have received had it not gone into mortgage default and foreclosure. The size of the difference - namely the foreclosure price discount - underscores the impact of market distress and foreclosure activities on property values.

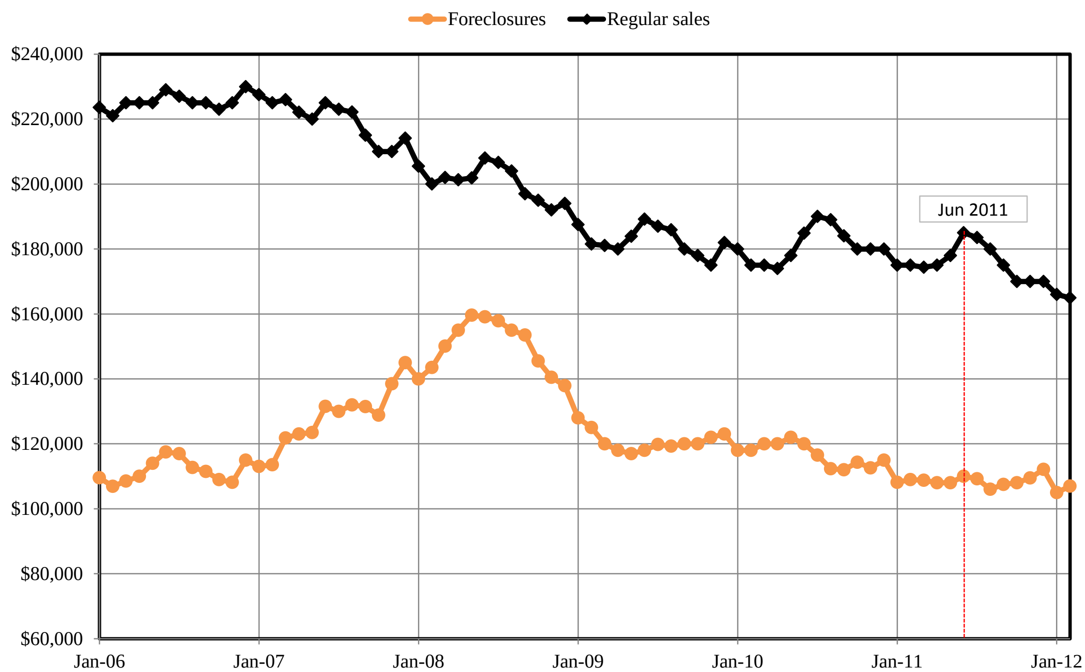
Prior to FNC's release of the market value-based foreclosure discount, there was no accurate industry data on true value discount priced into foreclosure or REO sales. Available measures of foreclosure price discounts typically compare the median sale price of foreclosed properties to the median price of regular, non-distressed properties. While useful as a general indicator of market distress, median price comparisons can be inadequate because underlying property conditions of distressed and non-distressed sales are generally not directly comparable. It is commonly known that foreclosed or REO properties frequently suffer from impaired property conditions.

Estimation of a foreclosed property's market value in the absence of foreclosure events is based on FNC's RPI. As a gauge of underlying home value, the RPI excludes sales of foreclosed homes. It is important to point out that the presence of any sizable foreclosure price discount does not necessarily mean money left on the table by sellers, or that potentially quick arbitrage profits exist in buying and reselling foreclosed properties. In addition to potentially large repair costs required to restore the properties, buying foreclosed homes can come with other hidden risks such as inadequate transfer of ownership.

Exhibit 1

February, 2012

	Median Price	vs. Jan 2012	vs. Feb 2011
Foreclosure Sales	$107,000	1.9%	-1.8%
Normal Sales	$165,000	-0.6%	-5.7%

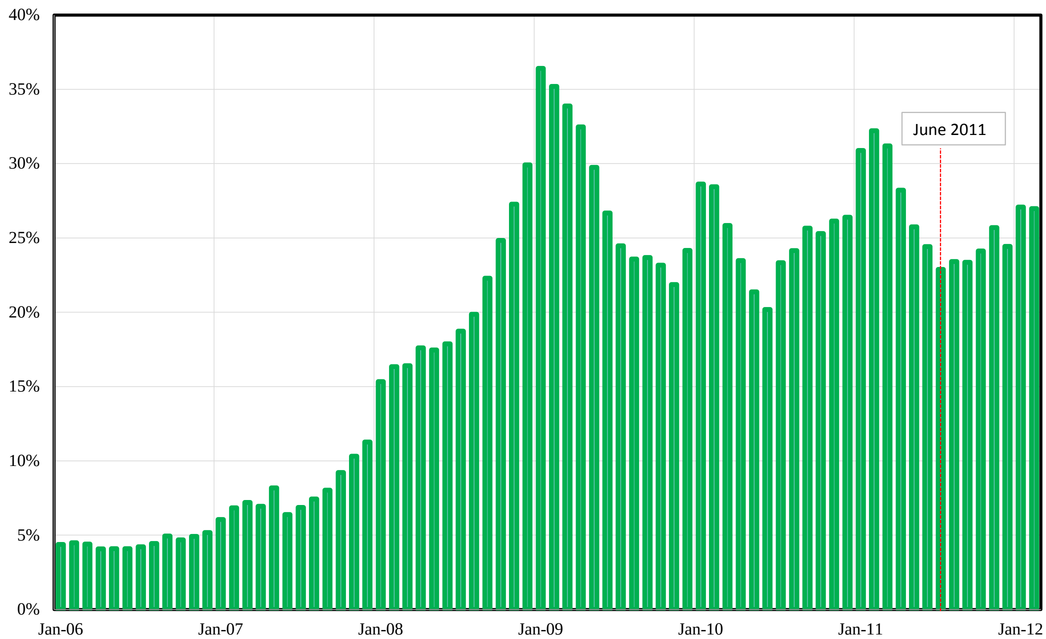


- In February, the median foreclosure sales price rose 1.9% from January. Compared to a year ago, it fell 1.8%.
- Median price on non-distressed sales dropped slightly by 0.6%. It is significantly lower than a year ago (5.7%).
- Median non-distressed sales price fell to new lows, down 10.8% from June 2011, or down 1.2% per month.

Exhibit 2

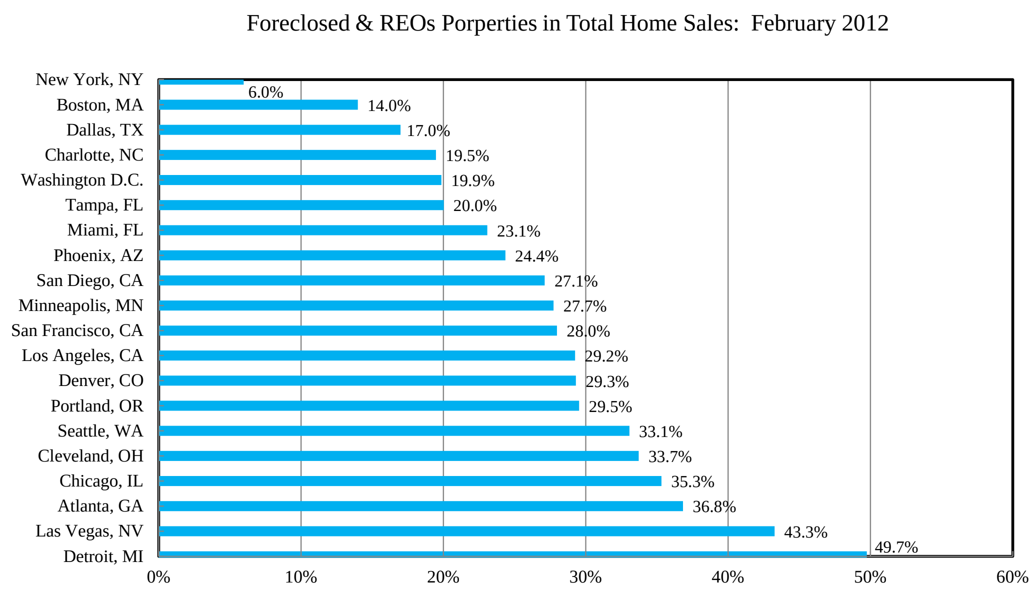
Percentage of Foreclosure & REO Sales

Recent months:	
Jan-12	27.1%
Feb-12	27.0%
A year ago:	
Jan-11	30.9%
Feb-11	32.2%



- Distressed sales remain at elevated levels - more than 1 in 4 homes sold in February are foreclosure or REO sales.
- The percentage of foreclosure and REO properties in monthly home sales is steadily rising in recent months, up from 24.4% in June 2011 to 27.0% in February.
- Foreclosure sales are down sharply compared to a year ago at 32.2%.
- Market distress peaked in early 2009 when more than 35% of total homes sales were foreclosed properties.

Exhibit 3



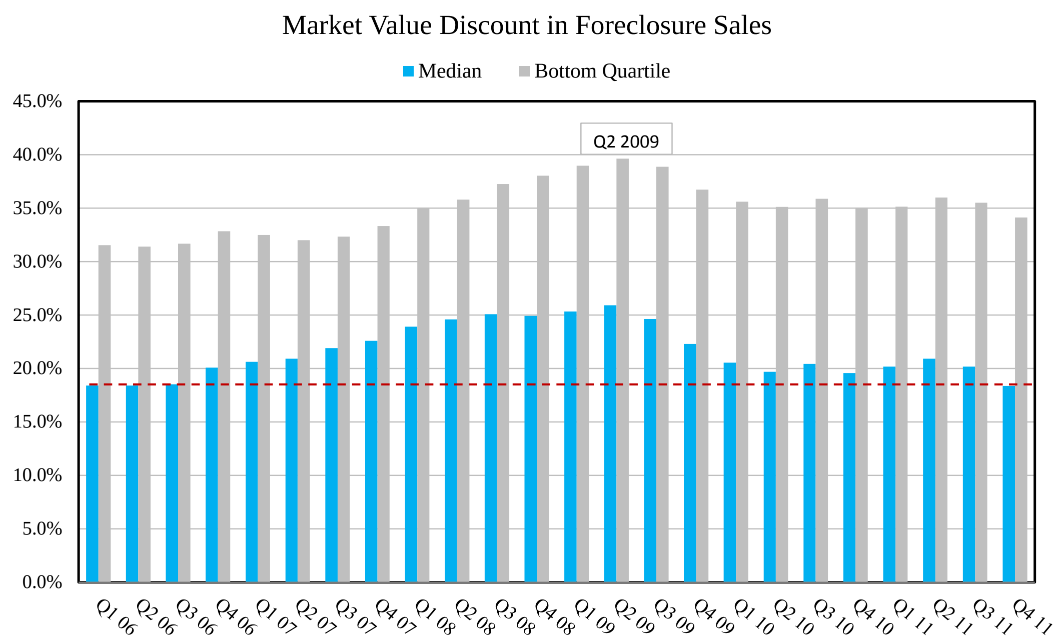
Year-to-Year Comparison

Metro Cities	Feb 2012	Feb 2011	12-mon Change
Phoenix, AZ	24.4%	48.4%	-24.1%
Tampa, FL	20.0%	39.8%	-19.7%
Miami, FL	23.1%	37.9%	-14.8%
Detroit, MI	49.7%	58.8%	-9.1%
Washington D.C.	19.9%	28.7%	-8.8%
Minneapolis, MN	27.7%	36.0%	-8.2%
Las Vegas, NV	43.3%	51.3%	-8.1%
Charlotte, NC	19.5%	27.1%	-7.6%
San Diego, CA	27.1%	34.1%	-7.0%
San Francisco, CA	28.0%	35.0%	-7.0%
Atlanta, GA	36.8%	42.5%	-5.7%
Chicago, IL	35.3%	40.1%	-4.8%
Portland, OR	29.5%	33.5%	-4.0%
Cleveland, OH	33.7%	37.7%	-4.0%
New York, NY	6.0%	9.6%	-3.6%
Denver, CO	29.3%	32.6%	-3.3%
Los Angeles, CA	29.2%	31.8%	-2.6%
Boston, MA	14.0%	14.8%	-0.8%
Seattle, WA	33.1%	33.1%	0.0%
Dallas, TX	17.0%	5.6%	11.4%

- Detroit and Las Vegas have the highest concentration of distressed sales, where nearly 1 in 2 homes sold in February are foreclosure or REO sales.
- In New York, foreclosure and REO properties account for just 6.0% of total home sales in February, the lowest among the nation's major housing markets.
- Boston and Dallas also have relatively low foreclosure sales (14.0% and 17.0%, respectively).
- Foreclosure sales as a percentage of total home sales have declined in most major cities in the last 12 months.
  - Foreclosure sales are down in 18 of the 20 major housing markets tracked by the FNC 20-MSA Composite Residential Price Index.
  - Phoenix, Tampa, and Miami see the largest declines: Phoenix down from 48.4% to 24.4%, Tampa from 39.8% to 20%, and Miami down from 37.9% to 23.1%.
  - Dallas is the only market where foreclosure sales jumped from just 5.6% a year ago to 17.0% in February.

Exhibit 4

Median Foreclosure Discount, 2011 Q4	vs. 2011 Q3	vs. 2010 Q4
18.4%	-1.8%	-1.2%



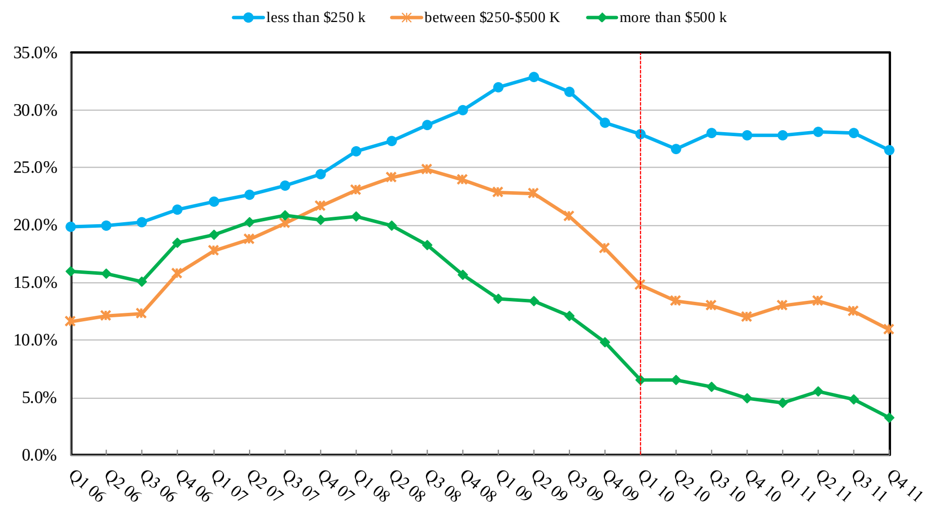
- Foreclosure price discount in Q4 2011 dropped below pre-mortgage crisis levels. (Q2 2009 marks the worst period of value discount in foreclosure sales.)
  - The median foreclosure price discount in Q4 2011 is estimated at 18.4%, down 1.8% from the previous quarter, or 1.2% from a year ago.
  - If applying the median discount value to a foreclosed property sold at $200,000, an estimated $44,800 in dead weight loss is incurred by collateral owner(s).
  - One in every four foreclosed homes is sold with more than 34% discount to its estimated property value had it not gone into foreclosure.
  - One in every four homes (not shown here) is sold at just 3.0% discount to its estimated property value.

Exhibit 5

Foreclosure Price Discount, 2011 Q4

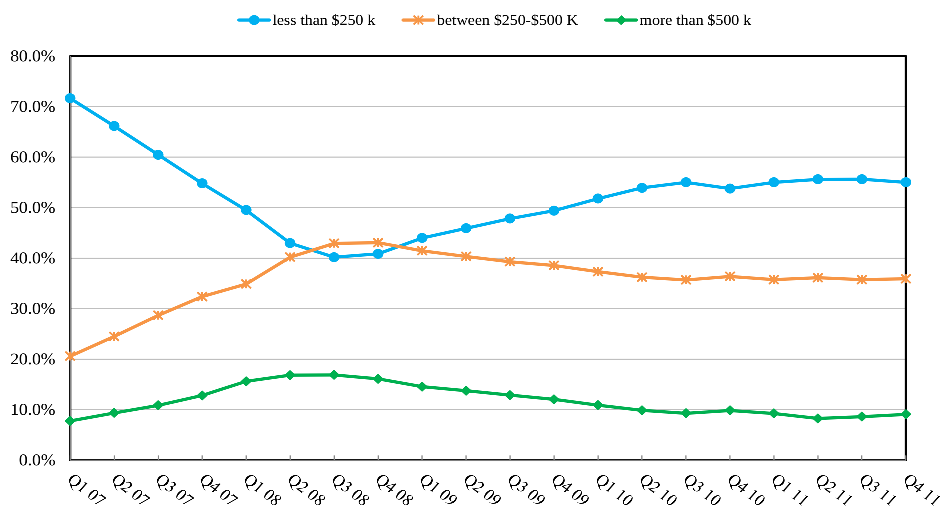
Property Type	Median	vs. 2011 Q3	vs. 2010 Q4
< $250 k	26.5%	-1.5%	-1.3%
[$250, $500 k]	10.9%	-1.6%	-1.1%
> $500 k	3.3%	-1.5%	-1.7%

Foreclosure Discount, by Property Type*



* Classified based on a foreclosed property's arms-length transaction price.

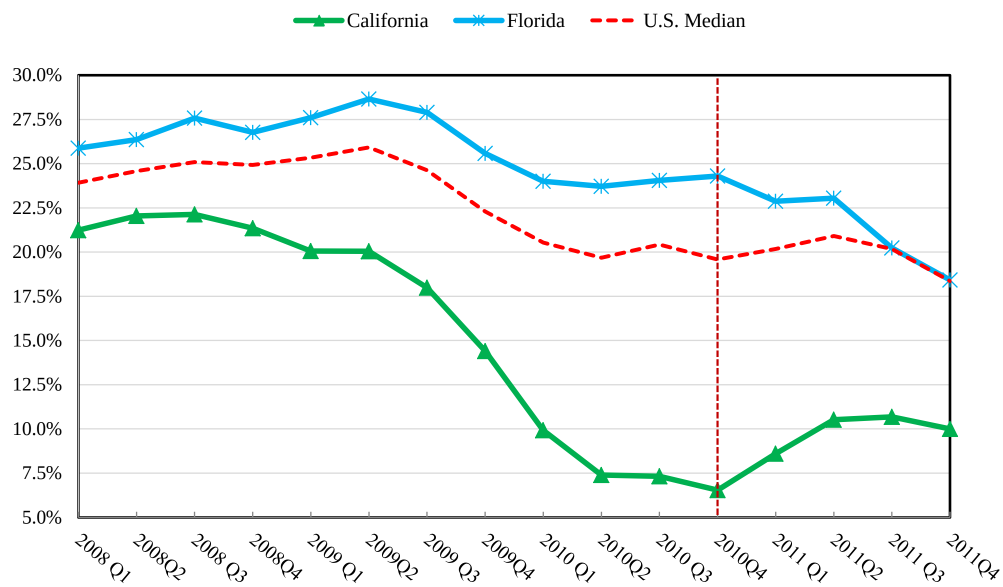
Foreclosure Sales Breakdown, by Property Type



- Among all three property types, foreclosure price discounts in Q4 2011 declined from the previous quarter and from a year ago.
- Low-priced homes are sold at a much higher discount to estimated market value. In Q4 2011, the median foreclosure discount is 26.5% for properties previously valued at less than $250,000; 10.9% for those between $250,000 and $500,000, and 3.3% for those valued above $500,000.
- Foreclosure discounts have declined to below pre-mortgage crisis levels for higher-priced properties (initially purchased at more than $250,000), but remained at elevated levels for low-priced properties. Most notably, the foreclosure discount for high-end properties (initially valued at more than $500,000) shows the largest improvement, down to only a fraction of the peak levels.
- The gap between low- and high-valued foreclosure sales, which widened significantly as the mortgage crisis deepened, shows no signs of closing up.
- In Q4 2011, lower-tier properties accounted for more than half of total foreclosure sales (55%). Middle-tier properties made up about 36%, and less than 10% were high-tier properties.
- The deepening of the mortgage crisis in 2007 and 2008 is accompanied by a significant increase of median-priced homes falling into default and foreclosure, which more than doubled from 20% at the start of 2007 to more than 43% at the end of 2008.
- The composition of the pool of foreclosure sales has remained relatively unchanged since 2011.

Exhibit 6

Foreclosure Price Discount: California vs. Florida



	2011 Q4	vs. 2011 Q3	vs. 2010 Q4
California	10.0%	-0.7%	3.5%
Florida	18.4%	-1.8%	-5.9%
US Median	18.4%	-1.8%	-1.2%

- As a non-judicial foreclosure state benefiting from a relatively expedited foreclosure process, California shows much smaller foreclosure price discounts than the country as a whole or Florida (a judicial state).
- In Q4 2011, the price discount in Florida foreclosure sales is down 1.8% compared to the previous quarter, and down 5.9% compared to a year ago. Florida has recently outpaced California and the country in the decline of foreclosure discounts.
- California's distressed market has experienced a setback in recent months, where foreclosure discounts have been steadily going up, rising 3.5% from a year ago

Exhibit 7

Foreclosure Discount in Top 20 Housing Markets

Metro Cities	2011 Q4	2010 Q4	12-mon Change
Phoenix	5.6%	13.4%	-7.9%
Tampa	23.7%	31.1%	-7.4%
Miami	17.8%	23.3%	-5.5%
Las Vegas	10.6%	14.9%	-4.2%
Atlanta	26.0%	29.1%	-3.1%
Washington, D.C.	23.4%	25.7%	-2.3%
New York	**30.4%**	**32.5%**	**-2.1%**
Denver	29.0%	30.1%	-1.2%
Portland	22.1%	23.1%	-1.0%
Seattle	27.5%	27.5%	0.0%
Detroit	29.2%	29.2%	0.0%
Charlotte	**30.4%**	**30.2%**	**0.2%**
Chicago	**35.7%**	**35.3%**	**0.4%**
Cleveland	**37.5%**	**36.3%**	**1.2%**
Minneapolis	27.0%	25.2%	1.8%
Boston	**33.4%**	**31.4%**	**2.0%**
San Diego	11.6%	9.1%	2.6%
Los Angeles	5.5%	2.6%	2.9%
San Francisco	18.6%	14.9%	3.7%
Dallas	28.2%	19.4%	8.8%

- A number of the hardest hit markets, including Phoenix, Tampa, Miami, Las Vegas, and Atlanta, show significant declines in foreclosure price discounts in the past 12 months.
    - The significant declines in foreclosure sales (see Exhibit 3) are likely the driving force.
- Dallas, in contrast, shows a large increase in foreclosure discounts.
    - It can also be explained by a large increase in the city's foreclosure sales that rose from just 5.6% in total homes sales in Q4 2010 to 17.0% in Q4 2011 (see Exhibit 3).
- Despite relatively low foreclosure sales (see Exhibit 3), New York and Boston's foreclosure price discounts are significantly above the national average.