REALTORS® CONFIDENCE INDEX

Report on the October 2014 Survey

NATIONAL ASSOCIATION OF REALTORS®

Research Department

Lawrence Yun, Senior Vice President and Chief Economist

The *REALTORS® Confidence Index* (*RCI*) Report provides monthly information about real estate market conditions and expectations, buyer/seller traffic, price trends, buyer profiles, and issues affecting real estate based on data collected in a monthly survey of REALTORS®. The October 2014 report is based on the responses of 3,759 REALTORS® about market conditions in October 2014. Of these, 2,160 respondents closed a sale and provided information about the characteristics of their last transaction for October which, on a combined basis, are viewed to be representative of the sales for the month[1]. Responses were received from November 2-10, 2014. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report.

The Report also contains commentaries by the Research Department on recent economic data releases and policies affecting housing.

Lawrence Yun, Senior Vice President and Chief Economist

Jed Smith, Managing Director, Quantitative Research

Gay Cororaton, Research Economist

Meredith Dunn, Research Communications Manager

[1] The survey was sent to 50,000 REALTORS® who were selected through simple random sampling. To increase the response rate, the survey is also sent to respondents in the previous three surveys and who provided their email addresses. The number of responses to a specific question varies because the question is not applicable to the respondent or because of non-response. To encourage survey participation, eight REALTORS® are selected through simple random sampling drawing to receive a gift card.

Table of Contents

SUMMARY

REALTORS®' assessment of market conditions indicate flat market activity in October 2013 compared to September and a year ago. The *REALTOR® Confidence Index-Current Conditions* for single family homes and the Buyer Traffic Index registered near 50, a level that indicates an equal number of respondents with "strong" and "weak" outlook.

REALTORS® reported on market conditions. Properties stayed longer on the market, typically at two months. First-time home buyers continued to account for less than a third of the market. Home purchases for investment purposes were steady compared to September but weaker than a year ago. Sales of distressed properties continued to be on the downtrend. REALTORS® continued to report that obtaining financing is a challenge for many buyers and that the loan approval process has become protracted, in many cases exceeding 30 days. The effective increase in insurance payments for FHA-insured loans has also put a financial strain on borrowers. REALTORS® also reported the lack of "affordable" and "good" houses on the market. Obtaining FHA financing for condominiums that are the entry points for home ownership has also remained a challenge. The uncertainty about the flood insurance rate increase continued to hold down activity in coastal states.

REALTOR® were more confident about the outlook for the next six months, with the *REALTOR® Confidence Index-Six-month Outlook* for single family homes above 50. Respondents expect prices to increase in the coming 12 months at a modest pace, with the median expected price growth at 3 percent.

October 2014 REALTORS® Confidence Index Survey Highlights

	Oct 2014	Sep 2014	Oct 2013
RCI –Current Conditions: Single Family Sales /1	50	51	58
RCI- 6 Month Outlook: Single Family Sales /1	56	53	60
RCI –Buyer Traffic Index /1	43	44	56
RCI-Seller Traffic Index /1	38	39	43
First-time Buyers, as Percent of Sales (%) /2	29	29	28
Sales to Investors, as Percent of Sales (%)	15	14	19
Cash Sales, as Percent of Sales (%)	27	24	31
Distressed Sales, as Percent of Sales (%)	9	10	14
Median Days on Market	63	56	54
Median Expected price growth in next 12 months (%)	3.0	3.1	3.8

/1 An index of 50 indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations. An index above 50 means there are more respondents with "strong" than "weak" expectations. The index is not adjusted for seasonality effects.

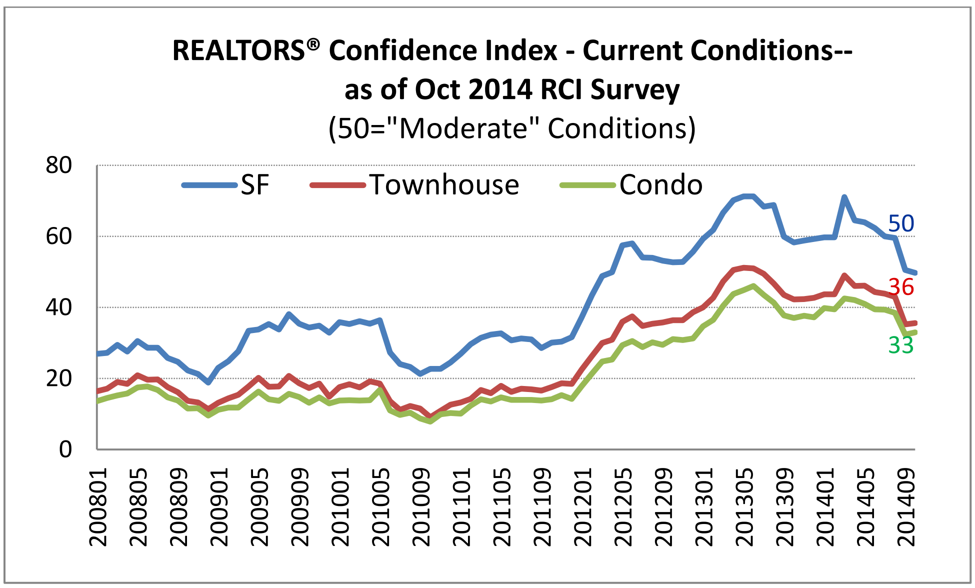
/2 NAR's 2014 Profile of Home Buyer and Sellers (HBS) reports that among primary residence home buyers, 33 percent were first-time homebuyers. The HBS surveys primary residence home buyers, while the monthly RCI Survey surveys REALTORS® and captures purchases for investment purposes and vacation/second homes.

I. Market Conditions

Market Conditions Held Steady in October 2014

The *REALTORS® Confidence Index-Current Conditions* across property types essentially moved sideways in October, with a slight decline for the single family market, and a slight increase for townhouses and condos. An index of 50 indicates a balance of respondents who viewed their markets as "strong" compared to those who view them as "weak."[2] The indexes for townhouses/duplexes and condominiums remained below 50.

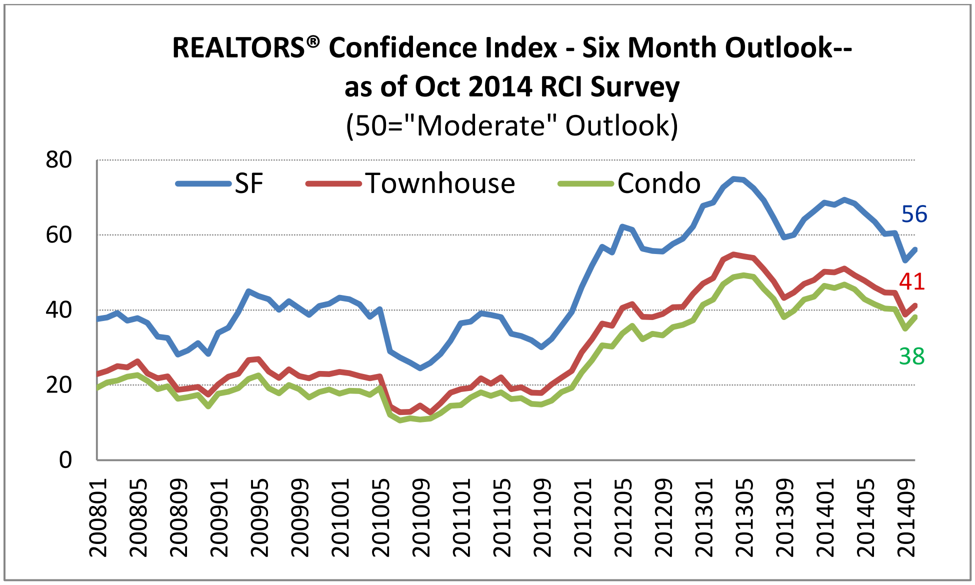
Realtors® continued to report difficulties in obtaining a mortgage under tighter underwriting standards and the decreased supply of "affordable" homes. Respondents also reported that the effective increase in mortgage insurance premium payments have made a home purchase less affordable and closing costs harder to cover. Financing for condominiums remained difficult to obtain because of FHA financing eligibility regulations for condominiums relating to occupancy guidelines.



However, confidence about the outlook for the next six months broadly improved in October compared to the previous month, although still modest compared to a year ago. In the single family market, the *REALTORS® Confidence Index - Six-month Outlook* increased to 56 (53 in September 2013; 60 in October 2013). The indexes for townhouses and condominiums remained below 50. The difficulty of obtaining FHA financing for condominiums has been

[2] An index of 50 delineates "moderate" conditions and indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations or all respondents having moderate (=50) expectations. The index is calculated as a weighted average using the share of respondents for each index as weights. The index is not adjusted for seasonality effects.

reported to be the major obstacle to the recovery of this market, typically the entry point to homeownership for first-time homebuyers.

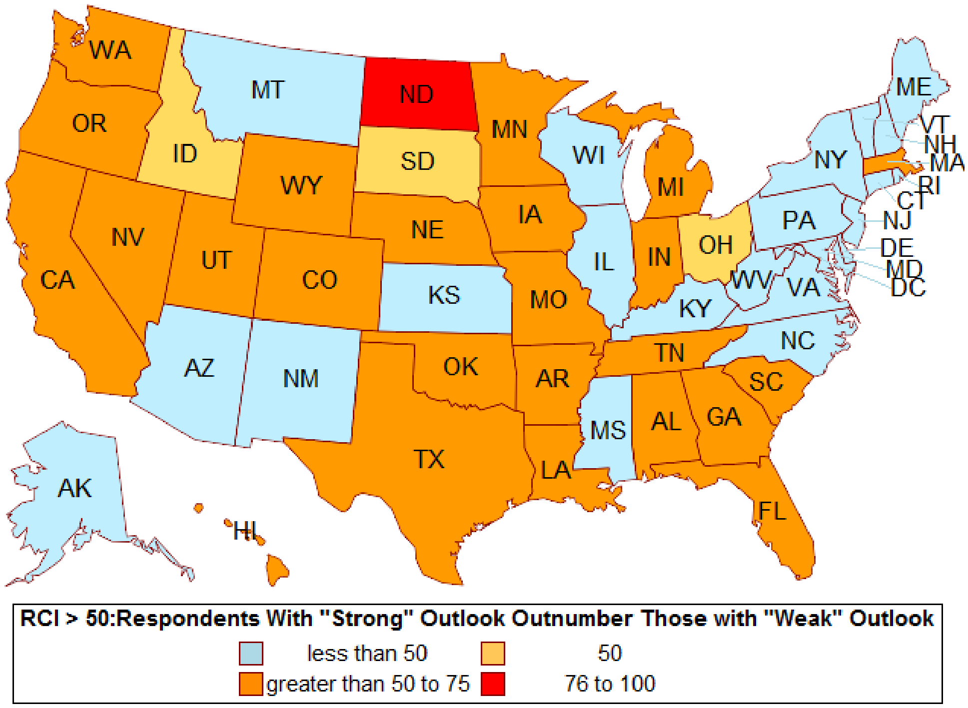


The following graphs show the *REALTOR® Confidence Index-Six-month-Outlook* by state [3] as well as employment growth , a key driver of housing demand. The market outlook for single family homes was strongest in North Dakota (red) as well as in the District of Columbia, Texas, Florida, and Nebraska (orange). The market for townhomes and condominiums remained generally weak, except in the District of Columbia, Texas, North Dakota, Colorado, and Nebraska which are experiencing strong job growth. Confidence was also broadly strong in Florida where prices that are still generally below peak levels continue to bolster demand, including from foreign buyers.

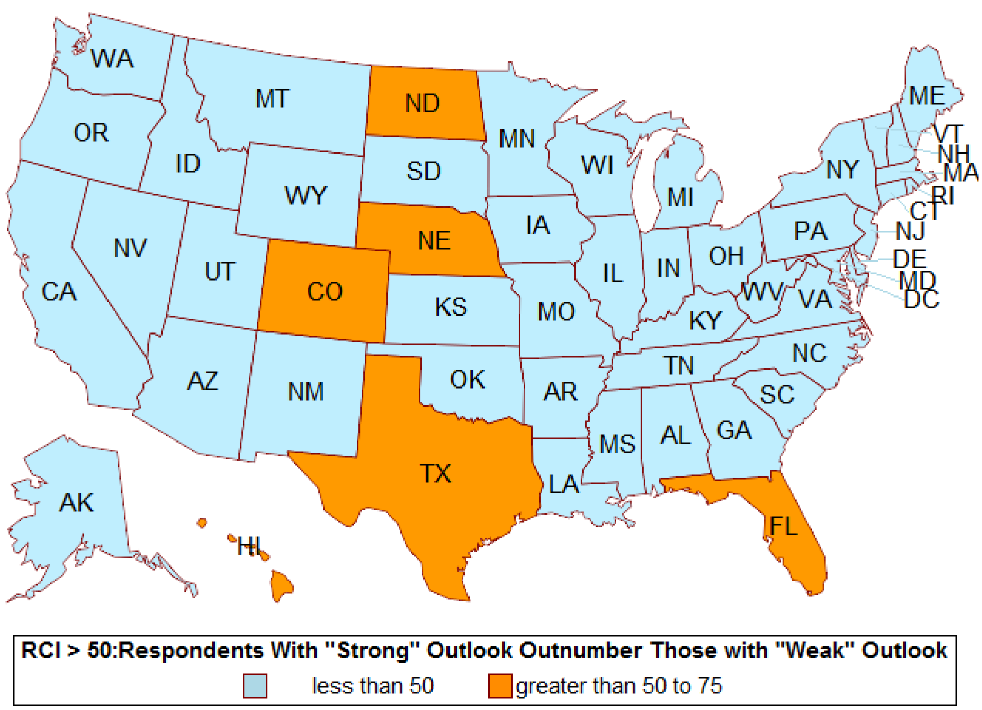
---

[3] The market outlook for each state is based on data for the last 3 months to increase the observations for each state. Small states such as AK,ND, SD, MT, VT, WY, WV, DE, and the D.C. may have less than 30 observations.

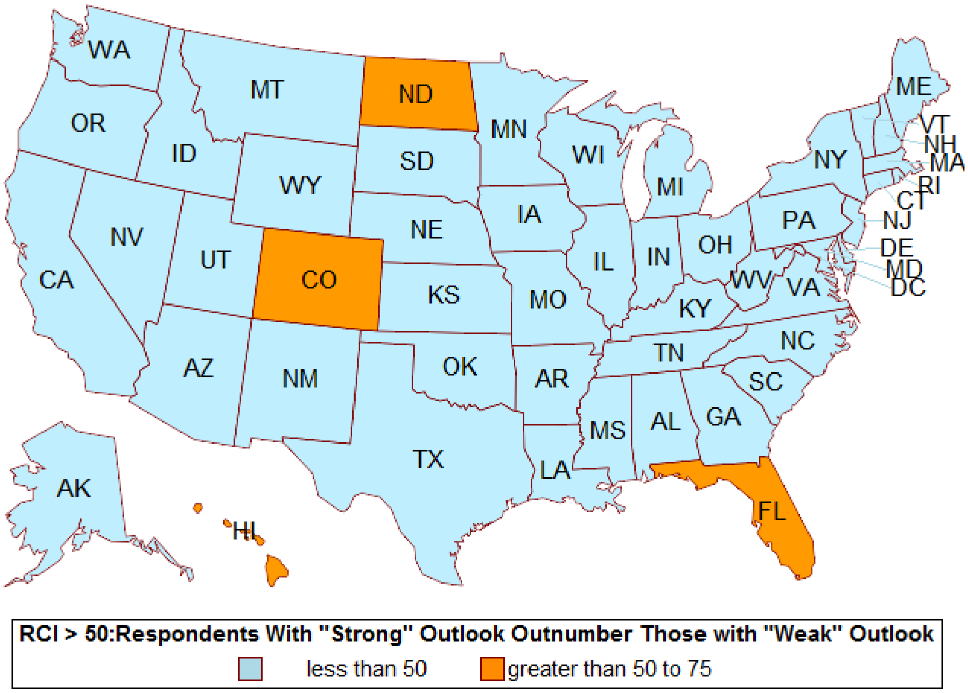
REALTORS(c) Confidence Index: Outlook in Next Six Months for Single-Family Homes
Based on August 2014-October 2014 RCI Surveys



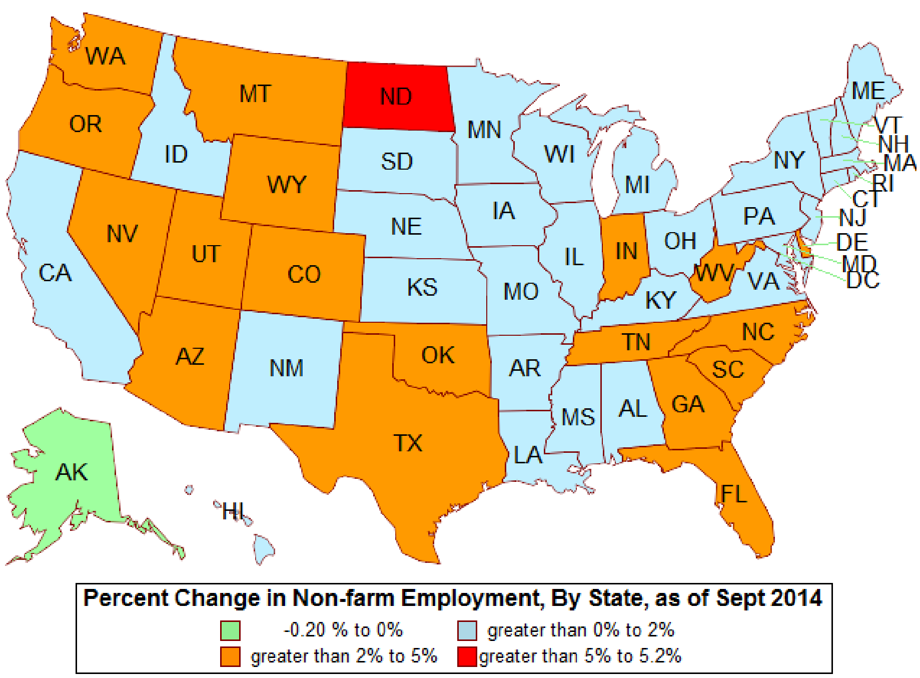
REALTORS(c) Confidence Index: Outlook in Next Six Months for Townhouses
Based on August 2014-October 2014 RCI Surveys



REALTORS(c) Confidence Index: Outlook in Next Six Months for Condominiums
Based on July August –October 2014 RCI Surveys



Non-farm Employment
Year-on-Year Growth, Sept 2014/Sept 2013

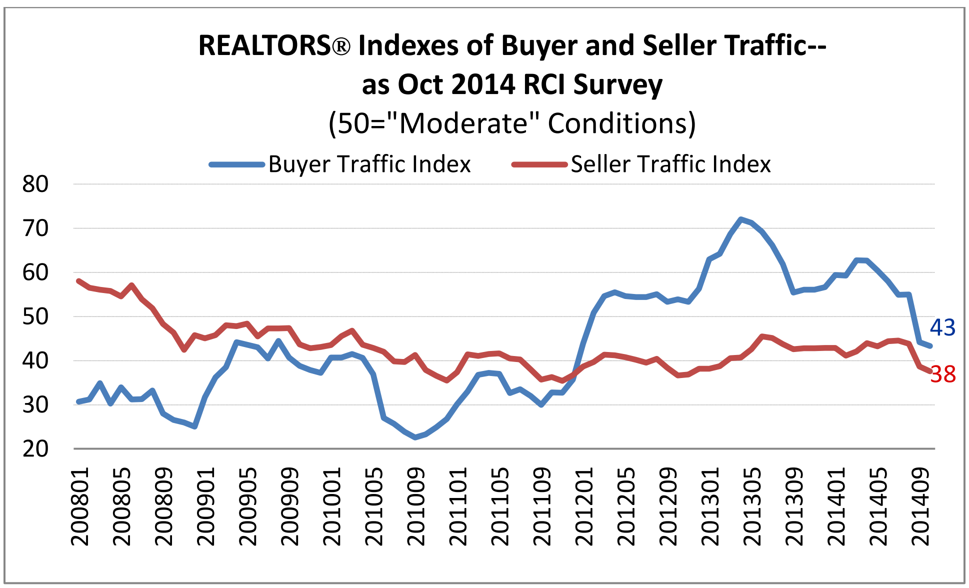


REALTORS® Buyer and Seller Traffic Indexes Indicate Flat Market in October 2014

Buyer traffic remained at about the same pace in October compared to September but slower compared to a year ago. The Buyer Traffic Index registered at 43 in October (44 in September 2014; 56 in October 2013). Seller traffic remained broadly "weak" with the Seller Traffic Index at 38 (39 in September 2013; 43 in October 2013). An index below 50 indicates that more REALTOR® respondents viewed traffic conditions as "weak" compared to those who viewed conditions as "strong."

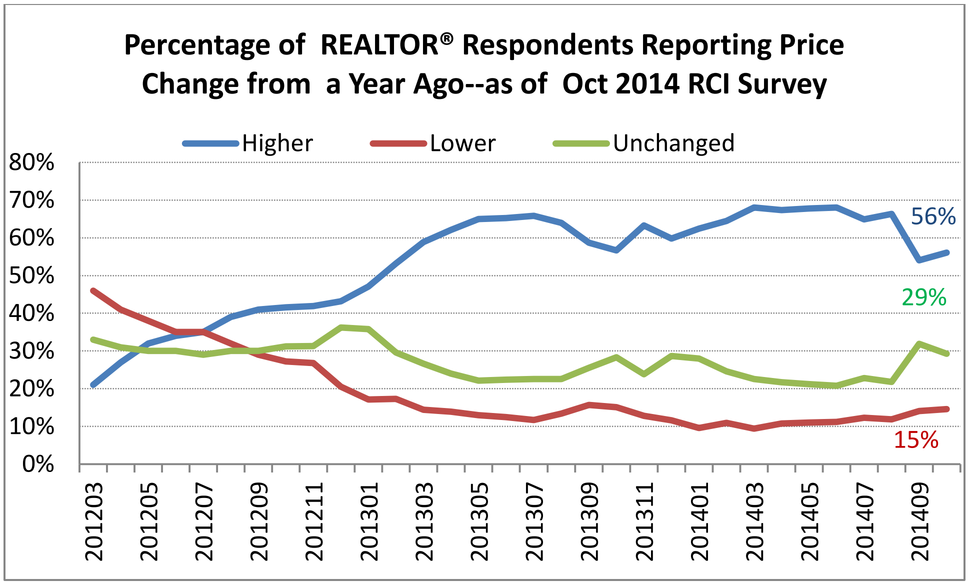
Obtaining financing and the lack of "affordable" homes were reported as the major constraints to homebuying. In coastal areas, uncertainty about the flood zone insurance rates continued to weigh down the market.

NAR also tracks data on the number of properties shown by REALTORS® using Sentrilock, LLC data. The index based on Sentrilock data also declined to 61 in October 2014 (65.7 in September). Showings need not necessarily translate to sales, but foot traffic has a strong correlation with future contracts and home sales.



Home Price Growth Continued to Moderate in October 2014

Approximately 56 percent of REALTOR® respondents reported that the price of their "average home transaction" was higher in October compared to a year ago (54 percent in September 2014; 57 percent in October 2013). Home prices are rising at a slower pace now that home prices have almost recovered to their peak levels. The median home price of an exisiting home as of September 2014 was $209,700 compared to the peak price of $230,400 in July 2006.

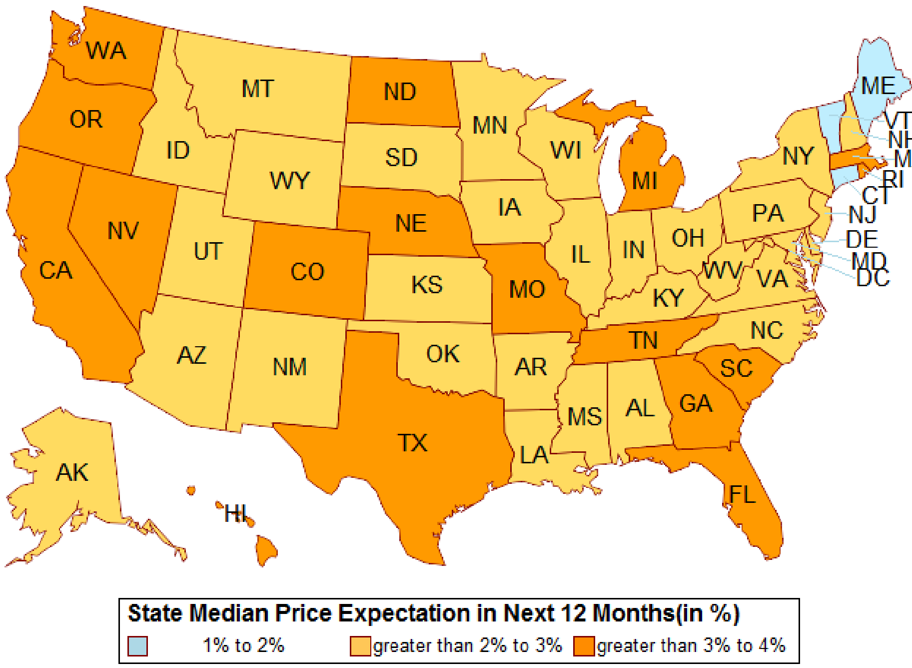


REALTORS® Expect Modest Price Growth in the Next 12 Months

With rising inventory and modest expectations of demand growth, REALTORS® responding to the October 2014 survey expected home prices to increase modestly in the next 12 months, with the median at about 3 percent. The map shows the median expected price change in the next 12 months by the state of REALTOR® respondents in the August – October 2014 surveys[4]. No state had a median expected price growth above 5 percent. States with the most upbeat price expectations (orange) include California, Washington, North Dakota, Texas, Florida, Georgia, the District of Columbia, and Massachusetts--states with strong housing market and job growth.

4 In generating the median price expectatation at the state level, we use data for the last three surveys to have close to 30 observations. Small states such as AK,ND, SD, MT, VT, WY, WV, DE, and the D.C. may have less than 30 observations.

Median Expected Price Change of REALTORS® in Next 12 Months, By State
Based on Aug 2014-Oct 2014 RCI Surveys



Properties Stayed Longer on the Market at 63 Days in October 2014

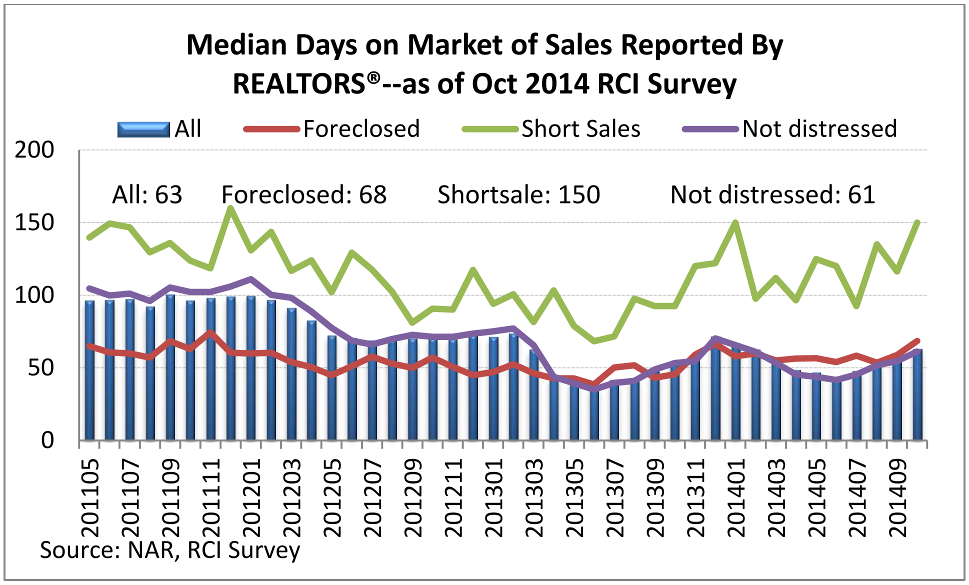
Properties stayed longer on the market in October, overall at 63 days (56 days in September 2014; 54 days in October 2013)[5]. Short sales were on the market for the longest at 150 days (116 days in September 2014 ; 93 days in October 2013) . Foreclosed properties were on market at 68 days (59 days in September 2014; 46 days in October 2013). Non-distressed properties were on the market at 61 days (55 days in September 2014 ; 53 days in October 2013). Approximately 33 percent of REALTORS® reported that properties were on the market for less than a month when sold.

Conditions varied across areas[6]. Based on information gathered from REALTORS® about their sales in the August-October 2014 surveys, properties were typically sold within 20 to 30 days in Texas, North Dakota, California, and the District of Columbia (red), while properties stayed on the market for 90 to 150 days in some states (blue).

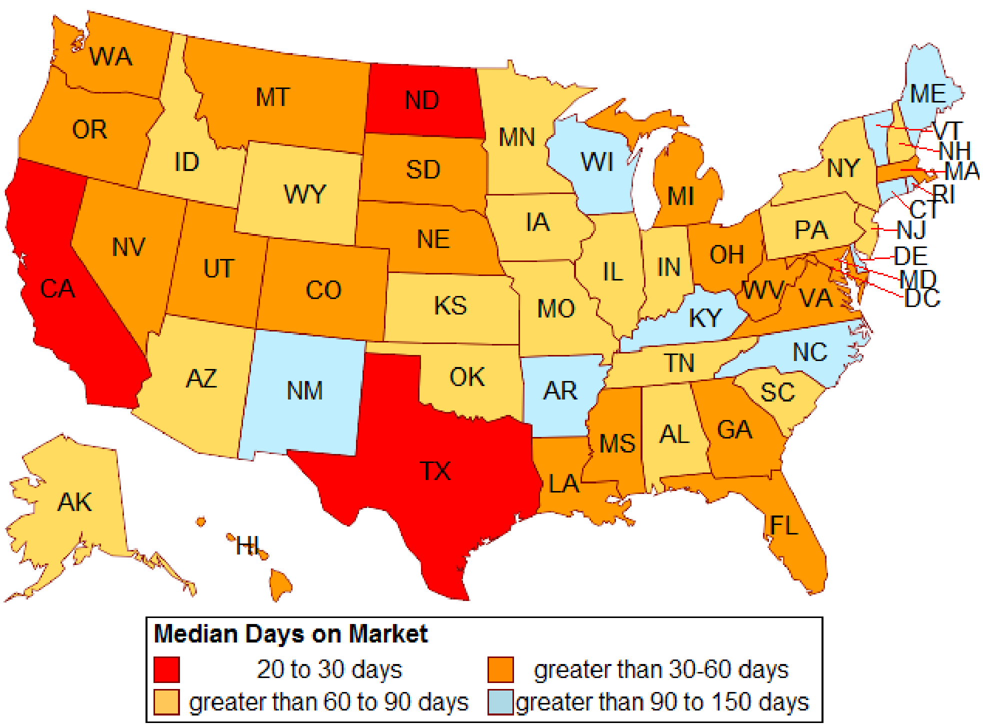
---

[5] This is the median days on the market. A median of say 30 days means that half of the properties were on the market for less than 30 days and another half of properties were on the market for more than 30 days.

[6] Survey data for the past 3 months is used to increase the number of observations for each state. Small states such as AK,ND, SD, MT,VT, WY, WV, DE, and the D.C. have less than 30 observations.



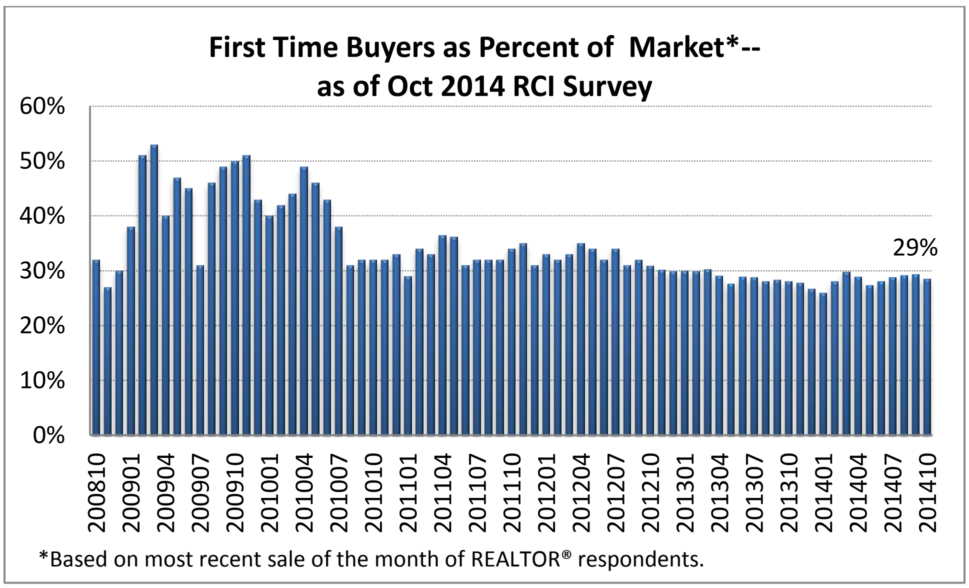
Median Days on Market
Based on Aug 2014-Oct 2014 RCI Surveys



II. Buyer and Seller Characteristics

Sales to First Time Buyers: 29 Percent of Sales

First-time homebuyers accounted for 29 percent of existing home sales in October (29 percent in September 2013; 28 percent in October 2013)[7]. Access to financing remains a major issue for most buyers for a variety of reaons: buyers cannot meet the eligibility requirements to obtain a mortgage, are not able to make the required downpayment, or afford the higher cost arising from from the effective higher mortgage insurance premiums for FHA-insured loans or risk-based adjustments for GSE-guaranteed loans[8]. Another major issue for most buyers is that home price appreciation has outpaced wage growth, making homes less affordable. REALTORS® commented on the difficulty of obtaining FHA financing for condominiums, which are typically the starter homes for first-time buyers.

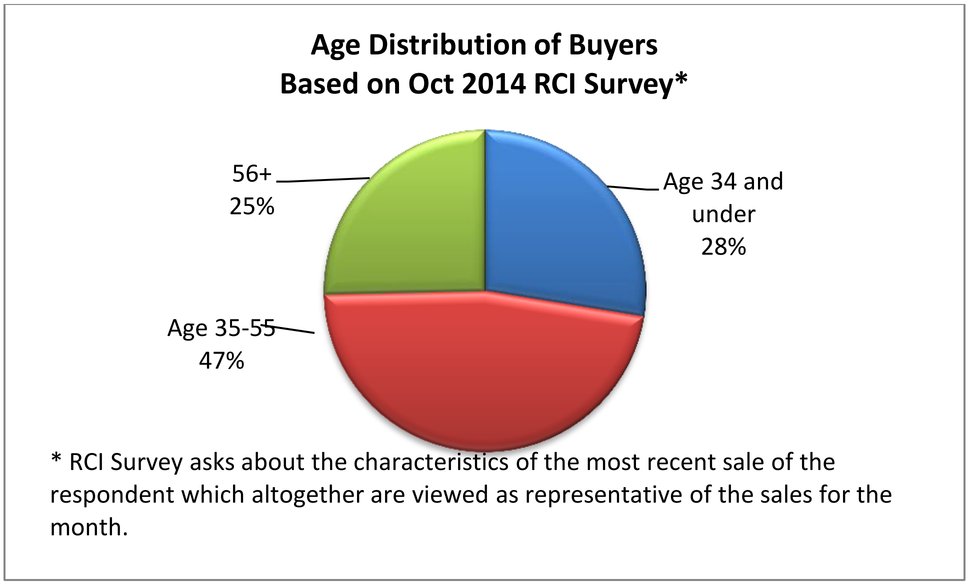


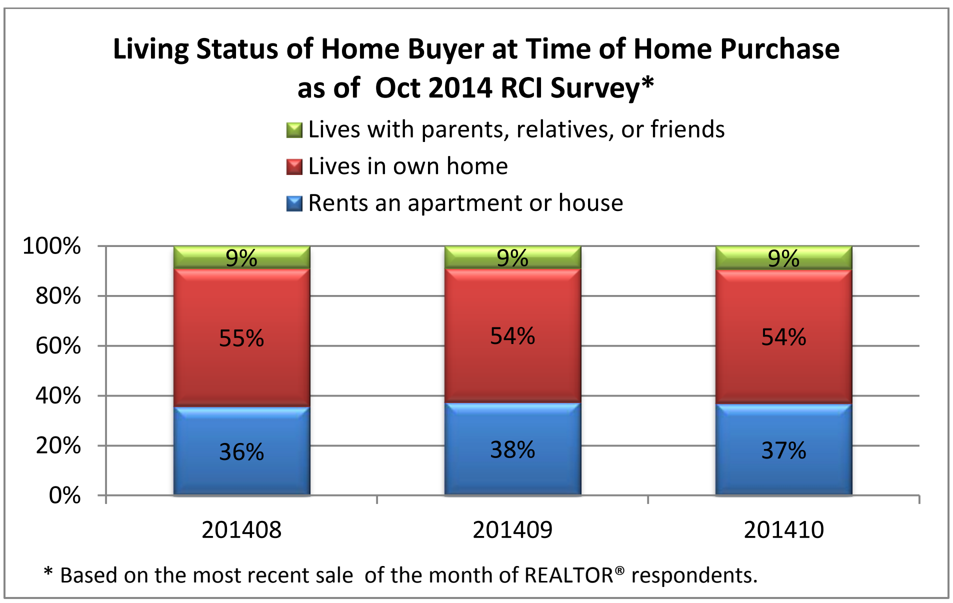
About 28 percent of buyers were 34 years old and under, typically the age-group of first-time home buyers. About 37 percent of buyers were renters, a group that includes first-time homebuyers.

---

[7] First time buyers accounted for about 33 percent of all homebuyers based on data from NAR's 2014 *Profile of Home Buyers and Sellers.* This is a survey of primary residence homebuyers and does not capture investor purchases but does cover both existing and new home sales. The *RCI Survey* is a survey of REALTORS® about their transactions and captures purchases for investment purposes and second homes for existing homes.

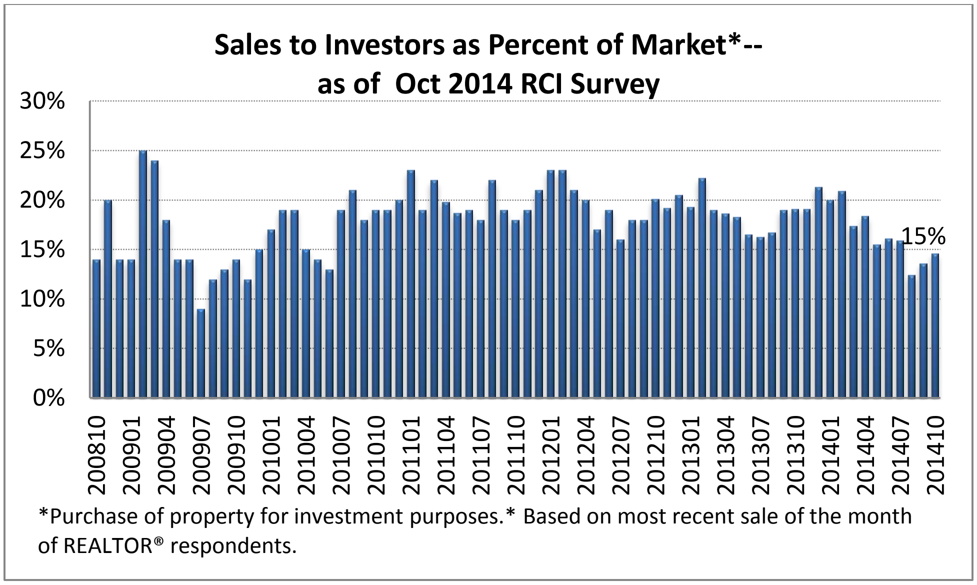
[8] For FHA-insured loans, the upfront mortgage insurance premium is 1.75 percent of the base loan amout, and the annual premium is 1.35 percent for 30-year loans with LTV of 95 percent or more . For GSE-backed loans, the upfront loan level price adjustments is as low as 0.25 percent for borowers with FICO score of 740+ for 60% loan-to-value mortgages and as high as 3.5 percent for for borrowers with FICO score of less than 620 and 90-95% loan-to-value mortgages.





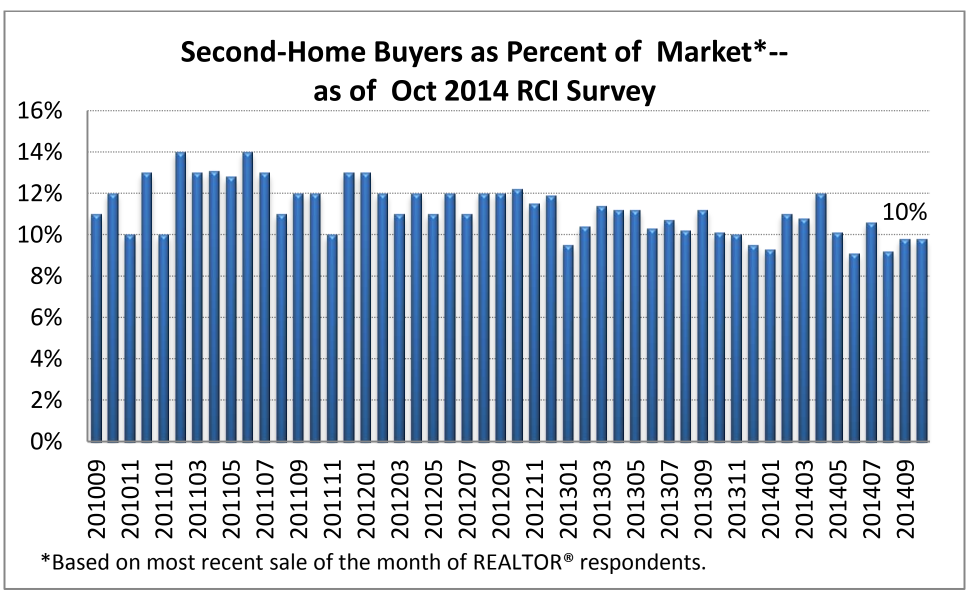
Sales for Investment Purposes: 15 Percent of Sales

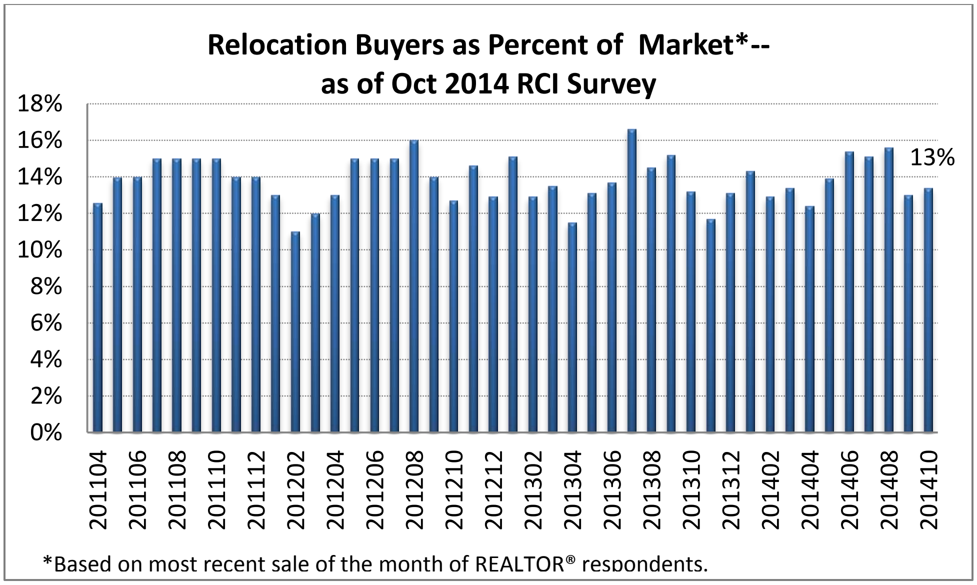
Approximately 15 percent of REALTORS® reported that their last sale was for investment purposes (14 percent in September 2014; 19 percent in October 2013). Since January of this year , the share of sales for investment purposes has declined from the historical average of about 20 percent in recent years. One reason is that there are fewer distressed properties, typically of interest to investors.



Second-home Buyers and Relocation Sales

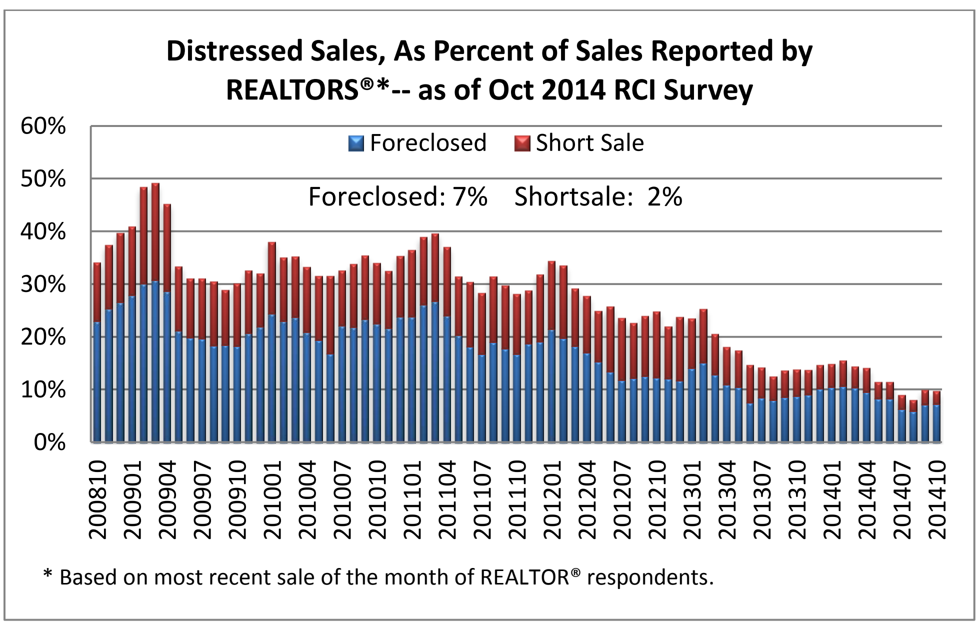
Purchases for vacation/second home purposes and for job/business relocation purposes have been reported as relatively constant since 2010. About 10 percent reported a sale to a buyer of a second home , and 13 percent reported a sale to a relocation buyer who moved due to a job-related change.





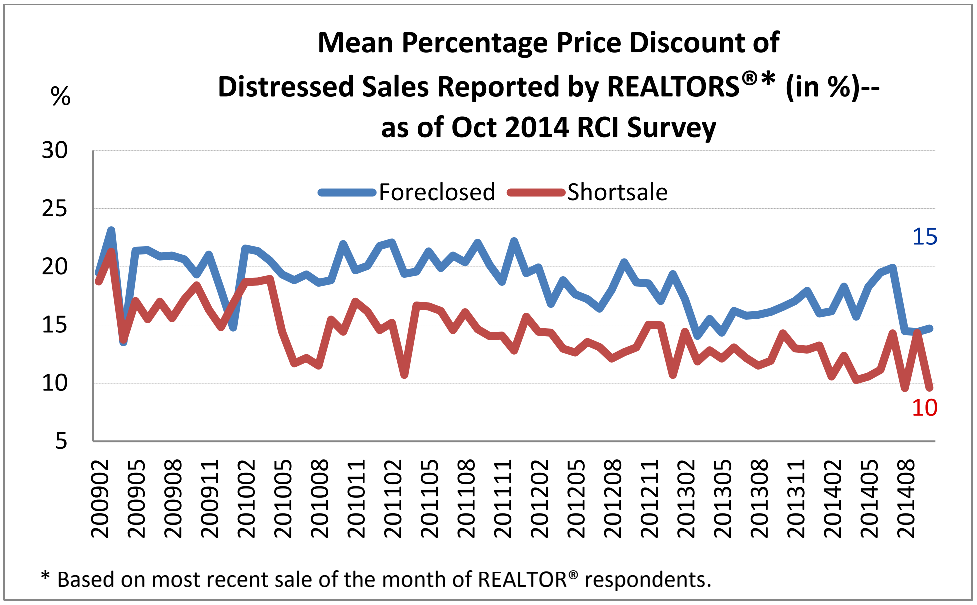
Distressed Sales: 9 Percent of Sales

With rising home values and fewer foreclosures, sales of distressed sales have fallen sharply compared to the magnitude in the wake of the Great Recession. In October 2014, distressed sales accounted for 9 percent of sales: 7 percent of reported sales were foreclosed properties, and about 2 percent were short sales[9]. Fewer distressed properties listed on the market explains to some degree why investment sales have been on the decline.

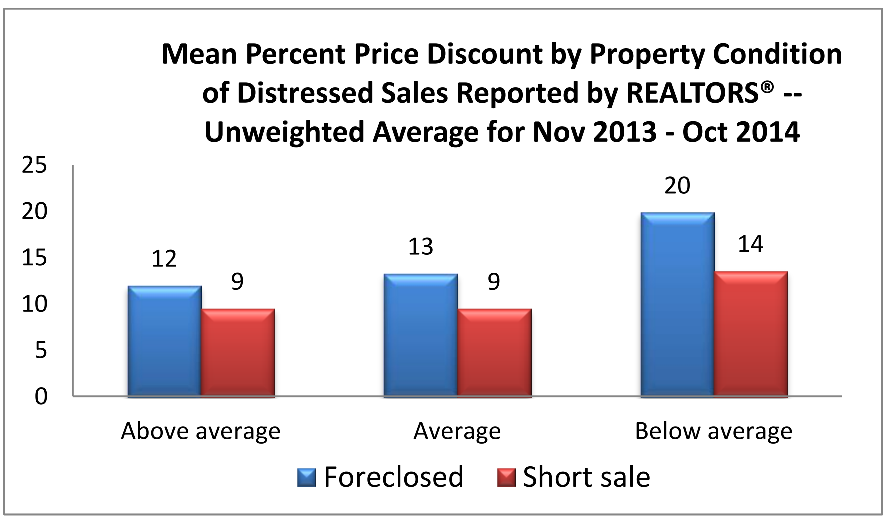


[9] The survey asks respondents to report on the characteristics of the most recent sale for the month.

Foreclosed property sold at a 15 percent average discount, while properties sold as short sales sold at an average of 10 percent discount. For the past 12 months, properties in "above average" condition were discounted by an average of 9-12 percent, while properties in "below average" condition were discounted at an average of 14-20 percent.

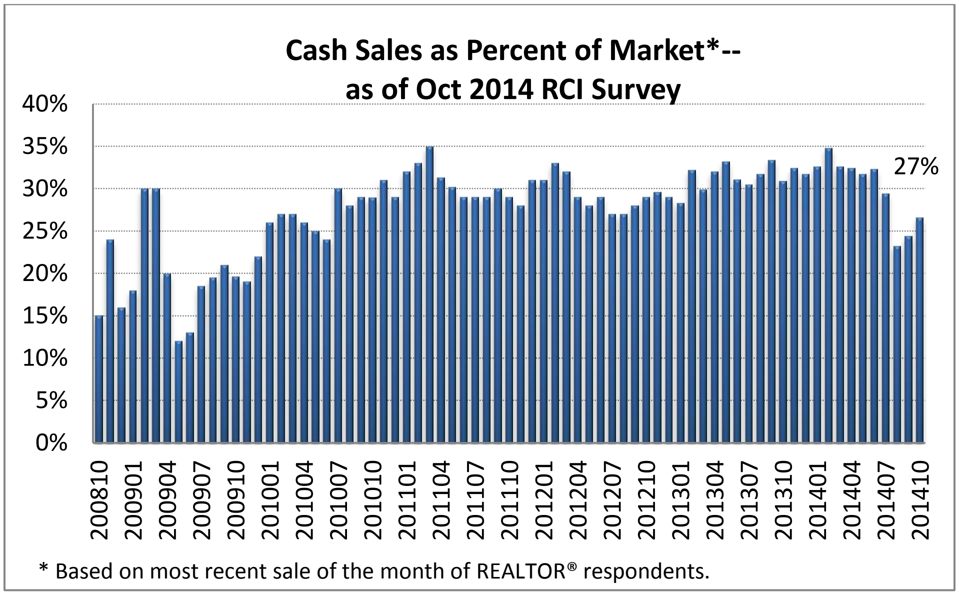


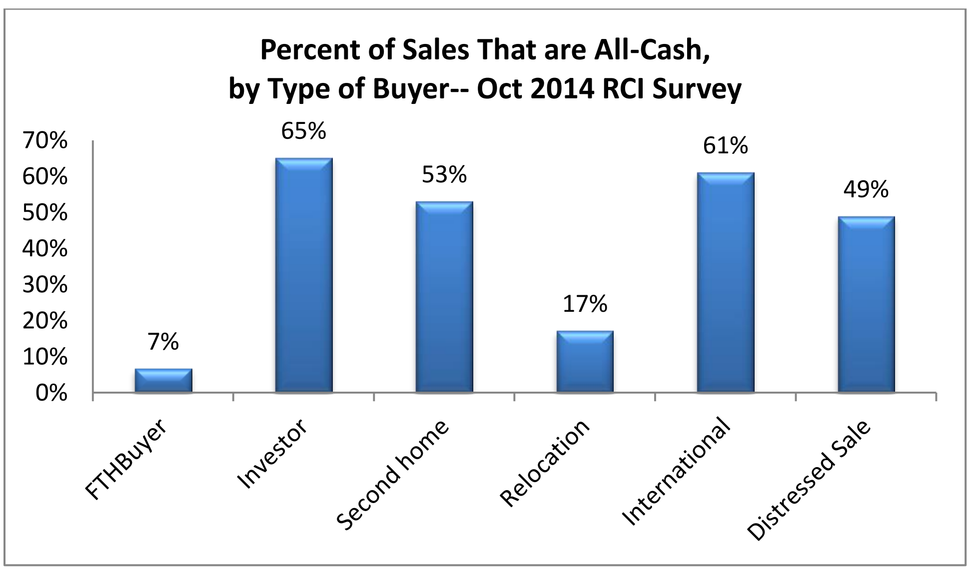
* Based on most recent sale of the month of REALTOR® respondents.



Cash Sales: 27 Percent of Sales

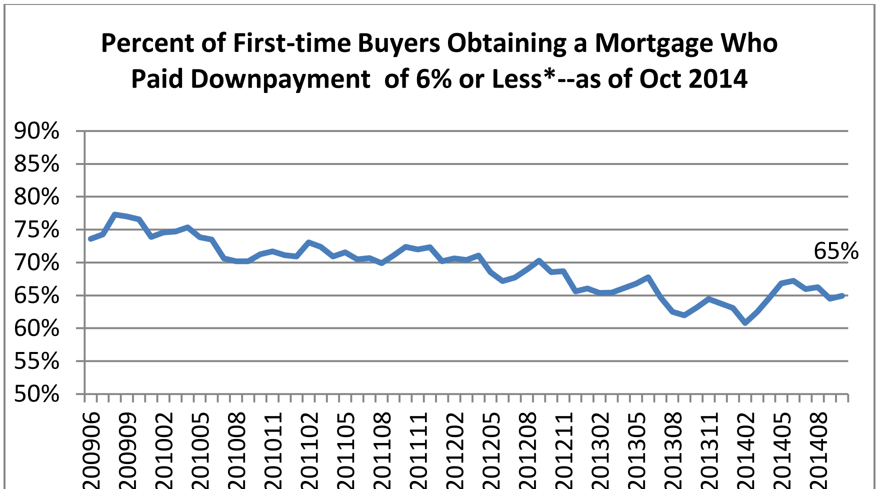
Approximately 27 percent of REALTOR® respondents reported that their last transaction was a cash sale (24 percent in September 2013; 31 percent in October 2013). The share of cash sales has declined from an average of about 30 percent. This appears to be tied to the decline in the share of purchases for investment purposes as well as the decline in share of sales of distressed properties. Foreign clients, and buyers of second homes and distressed properties are more likely to pay cash than first –time home buyers. Close to a third of sales to investors and international clients are cash sales. Less than 10 percent of first-time homebuyers make an all cash purchase.





First time Home Buyers Who Put Down "Low" DownPayment: 65 Percent

The majority of first-time home buyers obtaining mortgage financing still make a "low" downpayment. Among first-time buyers reported to be obtaining a mortgage in the months of August-October 2014, about 65 percent made a downpayment of 6 percent or less[10]. This was a decline from the 74 percent figure in 2009. However, borrowers making a low downpayment face higher costs either from higher mortgage insurance premium payments in the case of FHA-insured loans or risk adjustment fees (called loan level pricing adjustments) in the case of GSE-backed loans[11]. Higher down payments , typically at 20 percent, may be required to compensate for the weak aspects of a borrower's credit profile. This presents a barrier to the purchase of a home since the typical renter's savings may be substantially less than the downpayment and closing costs. Recently the FHFA announced that it would begin to allow the GSEs to finance loans with as little as 3% down payments to ease the burden on home buyers (see Section IV, Commentaries).



Source: NAR RCI Surveys. Computations are based on the most recent sale for the month reported by REALTOR® respondents in the last three surveys.

International Transactions: About 2 Percent of Residential Market

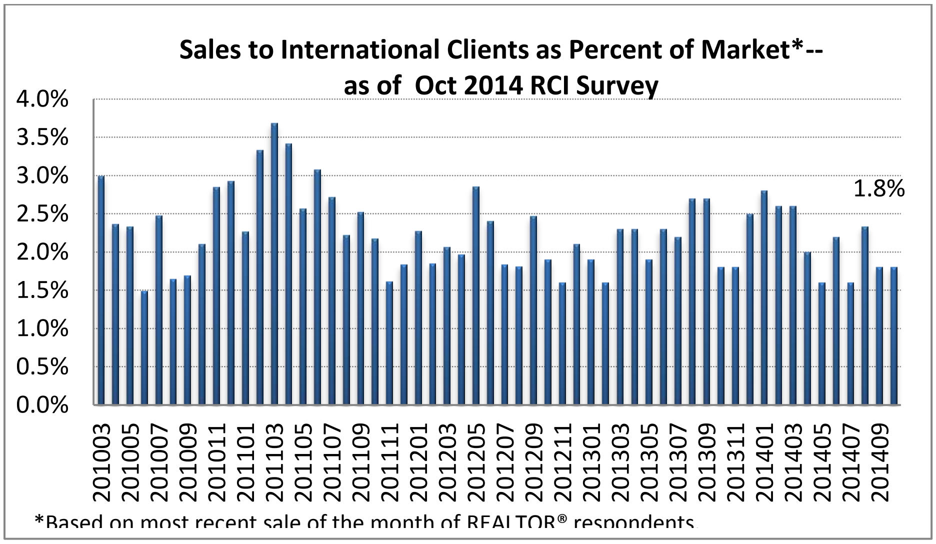
Approximately 2 percent of REALTOR® respondents reported their last sale was a purchase by a foreigner not residing in the U.S. International buyers frequently pay cash as well as purchase properties above the median price of the domestic buyer. For the 12 months ending March 2014, NAR estimated that sales to non-resident international clients and foreigners who

---

[10] Based on the REALTOR® respondents' most recent sales for the survey months, which altogether are viewed to be a representative sample of all sales for these months.

[11] For FHA-insured loans, the upfront mortgage insurance premium is 1.75 percent of the base loan amout, and the annual premium is 1.35 percent for 30-year loans with LTV of 95 percent or more . For GSE-backed loans, the upfront loan level price adjustments is as low as 0.25 percent for borowers with FICO score of 740+ for 60% loan-to-value mortgages and as high as 3.5 percent for for borrowers with FICO score of less than 620 and 90-95% loan-to-value mortgages.

are temporarily residing in the U.S. amounted to $ 92.2 billion, as reported in the *2014 Profile of International Homebuying Activity*.[12]

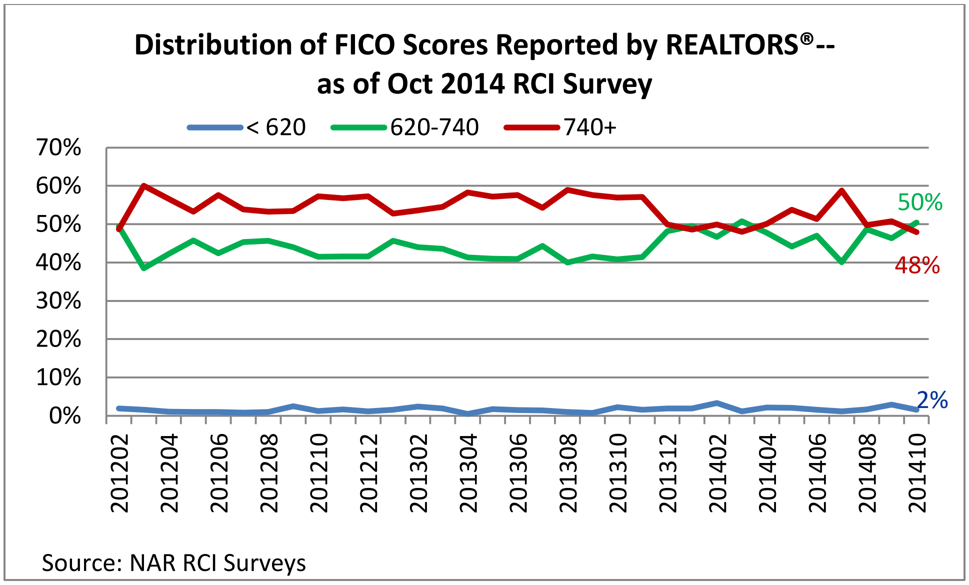


III. Current Issues

Credit Conditions Remain Tight

Credit continued to flow to those with high credit scores. Almost half of REALTORS® providing transaction credit score information reported FICO credit scores of 740 and above; with normal credit conditions, approximat ley 40 percent of buyers would have credit scores of 740 and above. About 2 percent of REALTORS reported a purchase by a buyer with credit score of less than 620; in a normal market the credit scores would be closer to 5 percent. As of July 2014, the median borrower FICO score for purchase-only loans was 749, up from about 700—in 2000[13].

[12] http://www.realtor.org/topics/profile-of-international-home-buying-activity
[13] http://www.urban.org/UploadedPDF/413271-Housing-Finance-Chartbook.pdf



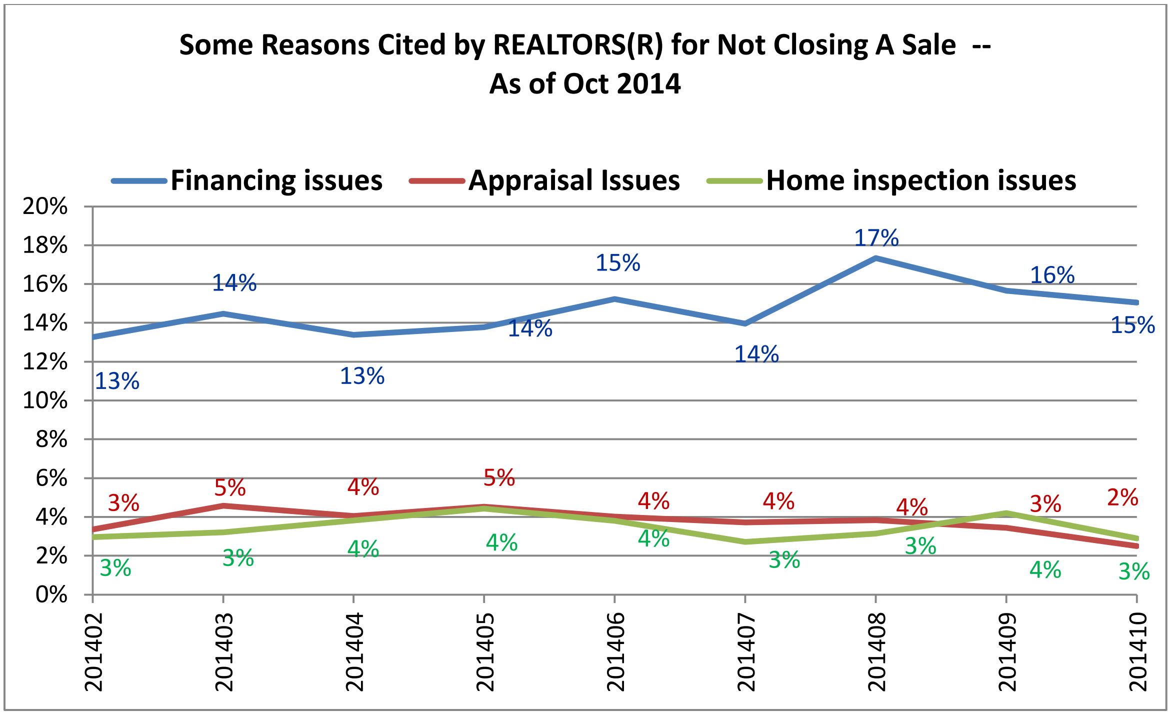
Recently, Fair Isaac Corporation introduced a new scoring model (FICO 9) that gives less weight to unpaid medical bills and missed payments that have been paid off. FICO estimates that the new scoring model can boost credit scores of first-time homebuyers by about 25 points and minorities by about 100 points. It has been reported that Fannie Mae and Freddie Mac still use the old credit score model. A NAR survey showed that small banks who put the loans on their own portfolio instead of selling the loans to the GSEs are more amenable to using the new credit score model[14]. Credit limitations could loosen to the extent that home buyers make greater use of mortgage origination by community banks and credit unions.

Reasons For Not Closing A Sale in October 2014

The difficulty of obtaining credit and the lack of "affordable" homes were frequently cited as major challenges to home buying by REALTORS® responding to the October 2014 survey. About 15 percent reported having clients who could not obtain financing. Meanwhile, about 13 percent of REALTORS® who did not close a sale reported that the buyer and seller could not agree on the price, and 8 percent reported the buyer lost the bidding competition. Appraisal issues were reported as accounting for 2 percent of failures to close a sale. "Other" reasons include responses that the buyer is still searching or that the transaction is in the escrow period or a closing is underway. REALTORS® have reported that under tighter underwriting guidelines, the documentation requirements for obtaining a mortgage have become very stringent and the procedure more protracted[15].

[14] Ken Fears, "New Credit Models Could Help, Someday". http://economistsoutlook.blogs.realtor.org/2014/10/09/new-credit-models-could-help-someday/

[15] Originators have become very stringent at verifying documentation requirements because of the risk that the GSEs will require them to repurchase the loan if the representation and warranties in the loan documents are found to have been violated. The period within which the originator may be asked to repurchase the loan if the reps and warrants are not met is three years.



IV. Commentaries by NAR Research

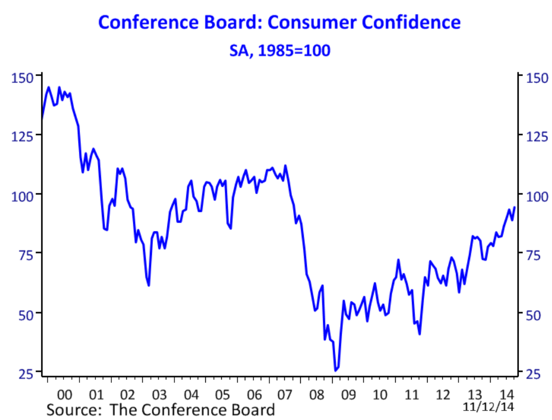
Consumers and REALTOR® Confidence

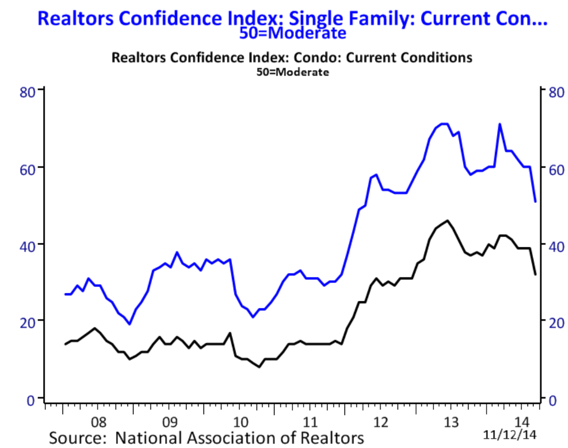
Lawrence Yun, Chief Economist

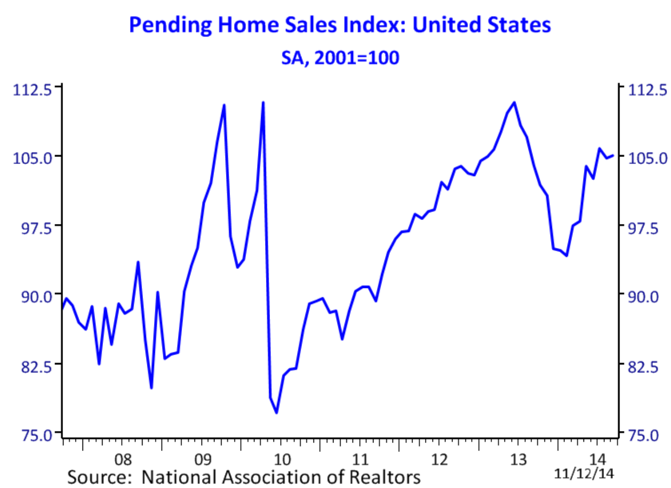
- Consumers are becoming ever more confident in the economy. Continuing job gains, lower gasoline prices, and rising home values are likely contributing to the sentiment. Interesting though, that REALTORS® were feeling less optimistic in the past month.
- The latest consumer confidence index reached a 7-year high mark. In October, the index was 94.5. The long term average is near 100. The overall improvement in the economy is no doubt contributing to better consumer feelings. This consumer confidence index is about the whole economy and not specifically related to home buying. But consumers need to be confident of the general economy in order even consider making a major expenditure such as buying a home. Therefore the rising consumer confidence portends better for the housing market outlook.
- REALTORS® in September expressed an opposite feeling with the index falling to its lowest mark in 2 ½ years. And the assessment of the condominium market has been consistently lower than that of the single family properties.
- Pending contracts to buy a home have been rising in recent months (though still down from one year ago). So unless REALTORS® are expressing their sentiment based on intangible factors, like changes in the number of client appointments or lower foot traffic at open houses, the weakening confidence by REALTORS® seems uncalled for.
- The confidence data cannot decipher if high-producing REALTORS® are just as pessimistic as the general REALTOR® population. We know that 20 percent of REALTORS® earn more than a six figure income while 30 percent of REALTORS® earn less than $15,000 a

year (with the rest earning in-between). It is presumed that confidence and earning are correlated.

- The U.S. Capitol dome is currently undergoing a major reconstruction. This dome is indeed a truly remarkable engineering feat and a thing of beauty. But one of the best known domes in the world covers a church in Florence, Italy designed by an architect Brunelleschi over 500 years ago. He and his crew, many of them orphans and labeled as "men without names," built the dome without construction cranes or other modern equipment. He built it to honor God and, possibly and more importantly, to raise hope of what people are capable of achieving. There is nothing like confidence to get things done.





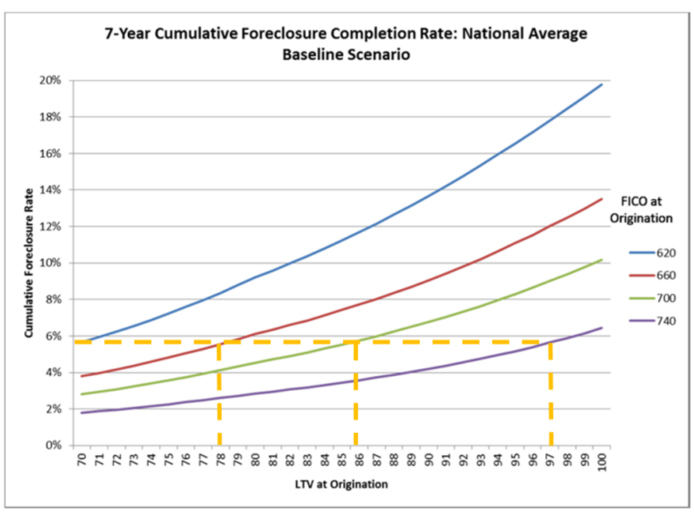


Fannie and Freddie to Back 3 Percent Down Loans, Safely

Ken Fears, Director, Regional Economics and Housing Finance Policy

Recently the FHFA announced that it would begin to allow the GSEs to finance loans with as little as 3% down payments. This news was received with mixed reviews. Some view it as an improvement in access for entry-level buyers while others see it as a step down the path of loose lending that brought down the market in the mid-2000s. In fact, this step is only a modest change that will likely be done under common sense restrictions to augment successful lending with a small impact on market. However, it should provide a positive signal to lenders.
In response to rising defaults and losses, the GSEs both eliminated their 3% down payment products in recent years in lieu of higher 5% minimums. However, roughly two weeks ago, the new Director Mel Watt announced the restitution of this program. Critics are concerned that this change would harken a renewal of the loose lending that brought down the housing finance system in the mid-2000s.

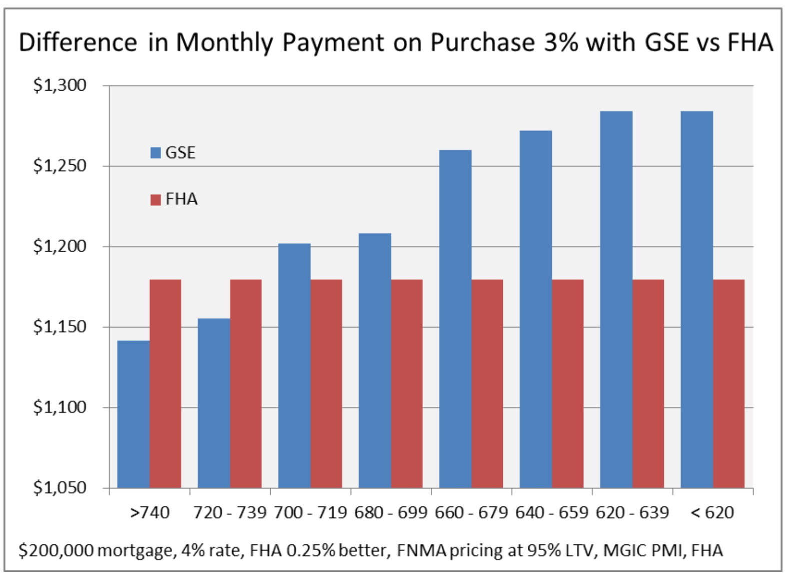
In a speech Friday at the Residential and Economic Trends Forum at the 2014 REALTORS® Conference & Expo, the Director clarified that, "…the guidelines will require that borrowers have compensating factors — such as housing counseling, stronger credit histories, or lower debt-to-income ratios — in order to make the mortgage eligible for purchase by Fannie Mae or Freddie Mac." As depicted below, examination by FHFA economists suggests that FICOs scores are very important in mitigating risk and that a borrower with a 740 FICO score and only 3% down payment has on average a lower foreclosure rate than a borrower with a 660 and more than 20% down payment. What's more, the agency's work has shown that foreclosure rates vary by debt-to-income ratio. The Department of Housing and Urban Development cited research for its HAWK program that found a decline in delinquency of 19% to 50% for borrowers who went through pre-purchase financial counseling. Finally, all loans financed by the GSEs must conform to the qualified mortgage rule. Researchers at the UNC Center for Community Capital found that loans originated between 2001 and 2008 that met the QM standard save for the 43% back-end debt-to-income requirement experienced a 5.2% 90-day delinquency rate through 2011. This was well below the 5.8% for all QM loans and roughly 17.6% rate for all non-QM mortgages. In short, the underwriting the GSE's employ will act as a foil against defaults.



Source: FHFA

But the FHFA will be in crowded company as it ventures into the lower down payment portion of the market. The FHA offered its 3.5% down payment product throughout the recovery while the VA dramatically expanded its mortgage program that requires no down payment. Likewise, the USDA's rural housing program and state housing finance agency programs have been important sources of low down payment funding.

FHA financing has been expensive in recent years, though, as the annual mortgage insurance premium has increased nearly 80 basis points since 2008. The GSEs' entrance into this portion of the market will provide a more affordable option to the FHA, but it will be priced relative to risk by both the agencies and their private mortgage insurer (PMI) counterparties. The GSEs do not currently price for the 3% down payment product, but they do increase loan level pricing adjustments based on DTI, FICO and LTV. Furthermore, private mortgage insurers like MGIC do price this risk charging 1.1% in annual PMI for a borrower with a 740 FICO and 3% down payment mortgage compared to just 0.71% for the same borrower putting down 5%. The fee jumps to 1.48% for a 660 borrower with 3% down payment versus the FHA's permanent MIP of 1.35% and UFMIP of 1.25%. In short, as depicted below it will make financial sense for borrowers with credit scores below 720 to remain at the FHA or make larger down payments. These borrowers could save $25 to $40 per month with this change.



This segment of the FHA's business is significant, though. Based on the FHA's Quarterly Report to Congress, FHA's production with FICO greater than 720 and down payment less than 5% was roughly 13.7% of its purchase production in the first half of 2014, down from 18.5% in all of 2013. It would comprise roughly 4% or less of the GSE's purchase production. Given the low default risk and high premiums that this portion of the market generates, it could impact the agency's bottom line. However, the high and permanent PMI structure at the FHA and low rate environment has led to an increase in run off as FHA borrowers gain equity and seek to refinance into better, non-permanent PMI rates. Because of this existing run off, the impact of competition in the 3% space would be limited, but more permanent.

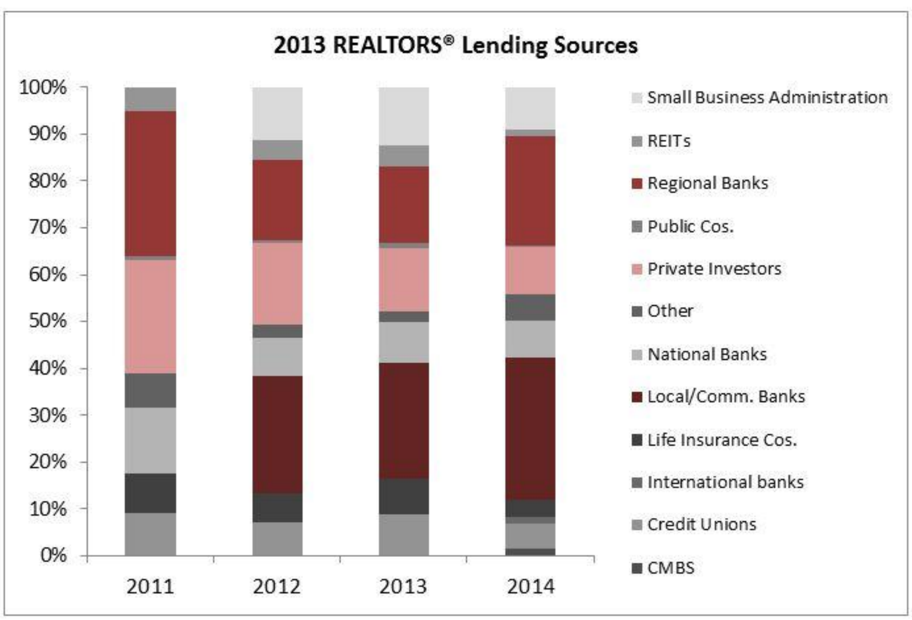
The fact that PMIs are currently pricing this segment is important as well; it demonstrates that private capital is willing to take this risk. Thus, this shift by the FHFA has important implications for lenders as it signals the willingness of the agency to back off its extreme risk aversion, a change that should reinforce the agency's recent overtures on repurchase agreements giving more comfort to lenders and a potential expansion of credit down the road.
While the FHFA's recent announcement of the return of its 3% down payment program will improve affordability for a limited number of borrowers, it will be done with compensating factors that will limit risk and the size of the program. More important may be the signal that it sends to lenders: the GSEs are following the example of private mortgage insurers and reaching out to borrowers.

Community Banks Are Main Source of REALTORS®' Commercial Financing in 2014

George Ratiu, Director, Quantitative and Commercial Research

During 2013, commercial real estate witnessed a noticeable reversal in capital availability. Following exceedingly stringent capital standards and overly tight liquidity in the wake of the 2008 recession, funding sources broadened. The trends accelerated during 2014, as most major capital providers returned to the markets and actively competed, leading some investors to express concern about an overabundance of capital chasing too few deals in some markets.

For commercial REALTORS®, the main sources of funding in 2014 mirrored the trends of the past couple of years. Local and community banks were the largest source of lending, accounting for 30 percent of deals. Regional banks were the second largest provider of CRE loans, with 23 percent of transactions. Over the 2013-14 period, regional banks increased their share of the market. Private investors provided 10 percent of funding for REALTOR® deals, followed closely by the Small Business Administration, at 9 percent.



National banks were a much smaller source of CRE lending in REALTOR® markets, accounting for 8 percent of total. Credit unions and insurance companies comprised close to one-in-ten loans. Lending sources also included international banks, REITs and CMBS, but only in a small fraction of transactions.

Underscoring the importance of the banking sector as a source of funding, 64 percent of REALTORS® indicated that bank capital for commercial real estate remains an obstacle to sales. When asked about the main causes for the lack of bank capital, 27 percent indicated that legislative and regulatory initiatives proved the main stumbling block. Another 22 percent pointed to the U.S. economic uncertainty as an underlying factor.