REALTORS® CONFIDENCE INDEX

Report on the March 2015 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 a monthly survey of REALTORS®. The March 2015 report is based on the responses of 3,767 REALTORS® about local market conditions in March. Of these, 2,199 respondents closed a sale and were asked information about the characteristics of their last transaction in March. The data on a combined basis, are viewed to be representative of the sales for the month[1]. Responses were received from April 1-8, 2015. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report. REALTORS® may be interested in comparing their markets against the national summary.

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[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 th61rough simple random sampling drawing to receive a gift card.

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Summary

The information provided by REALTORS® based on their client interactions indicated a pickup in market activity and more widespread confidence in March 2015 compared to conditions in February 2015 and a year ago. The seasonal uptick in market activity during spring and summer, low interest rates and a sustained growth in jobs, and recent measures to lower the cost of borrowing and make credit more available (e.g, lower FHA mortgage insurance, 3 percent downpayment for GSE-backed loans, and relaxation and clarity regarding lender buyback of loans they originate) are likely underpinning the improved market confidence.

For the second month in a row, the *REALTOR® Confidence Index-Six-Month Outlook* was above 50 across all property types (single family townhomes, condominiums), indicating that the number of respondents who viewed the market as "strong" outnumbered those who viewed the market as "weak." With strong demand amid tight supply, properties typically sold faster. With demand rising while supply remains contrained, the pace of home price growth appears to be on the rise. The share of sales for investment purposes and cash sales continued to decline, an indication that long-term homeowners, rather than investors, are increasingly driving the recovery.

Although REALTORS® were optimistic about the outlook for the next six months , they noted several issues of concern:

- tight inventory in most states especially for move-in ready and "affordable" units, although there were reports in some areas that supply is normalizing;
- significant lender delays and many instances of delayed closings;
- appraisal valuation issues and delays due to "questionable" comps--especially for FHA/VA loans, use of "out-of-town appraisers", and second appraisal requirements;
- more stringent home inspection, repair, and insurance required, especiallyfor older homes;
- adverse impact of low oil prices in states with oil/gas production;
- slowing demand from international buyers (e.g., Canadians) due to strong US dollar;
- uncertainties associated with flood insurance rates.

March 2015 REALTORS® Confidence Index Survey Highlights

	Mar 2015	Feb 2015	Mar 2014
RCI –Current Conditions: Single Family Sales /1	68	63	71
RCI- 6 Month Outlook: Single Family Sales /1	75	75	69
RCI –Buyer Traffic Index /1	66	61	63
RCI-Seller Traffic Index /1	43	41	42
First-time Buyers, as Percent of Sales (%) /2	30	29	30
Sales to Investors, as Percent of Sales (%)	14	14	17
Cash Sales, as Percent of Sales (%)	24	26	33
Distressed Sales, as Percent of Sales (%)	10	11	14
Median Days on Market	52	62	53
Median Expected price growth in next 12 months (%)	3.5	3.4	4.2

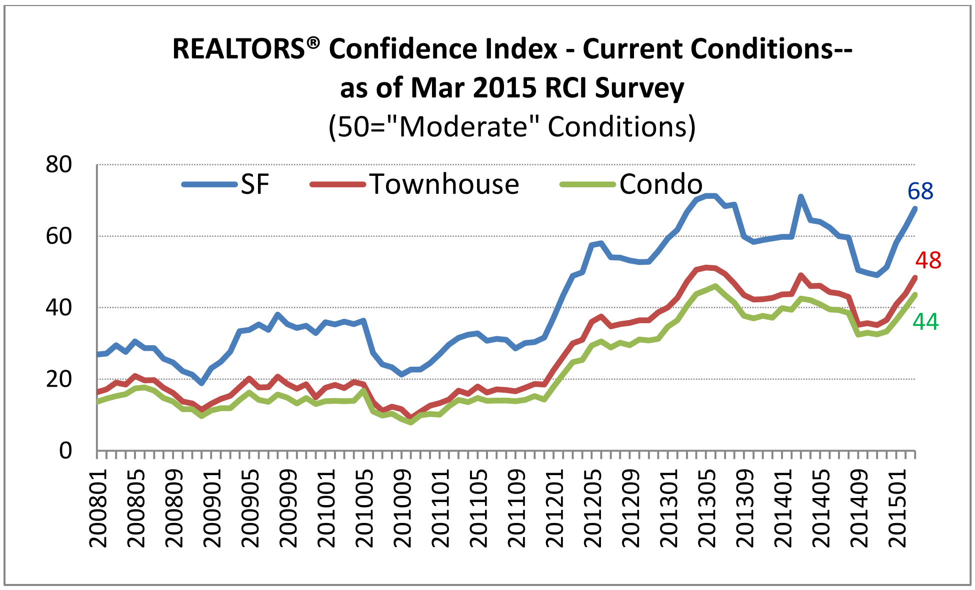
/1 An index of 50 indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations. An index above 50 means there are more respondents with "strong" than "weak" expectations. The index is not adjusted for seasonality effects.
/2NAR's 2014 Profile of Home Buyer and Sellers (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 Activity Improved in Most Markets in March 2015

With the onset of spring and mortgage rates holding to below 4 percent, the *REALTORS® Confidence Index-Current Conditions* increased for all property types in March 2015 compared to February 2015[2]. The index for single-family homes was 68 (63 in February 2015; 71 in March 2014). The indexes for townhomes and condominiums also improved although they are still below 50. REALTORS® reported that FHA's and the GSE's (Fannie Mae and Freddie Mac) financing eligibility regulations continued to make condominium financing difficult to obtain[3]. An index above 50 indicates that the number of respondents who viewed their markets as "strong" outnumbered those who viewed them as "weak."[4]

REALTORS® reported they were seeing more demand because of the lower downpayment requirement for GSE-backed loans (from 5 percent to 3 percent) and the lower FHA monthly mortgage insurance premium (from 1.35 percent to 0.85 percent starting in January 2015).



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[2] Respondents were asked "How would you describe the past month's housing market in the neighborhood(s) or area(s) where you make most of your sales ?"

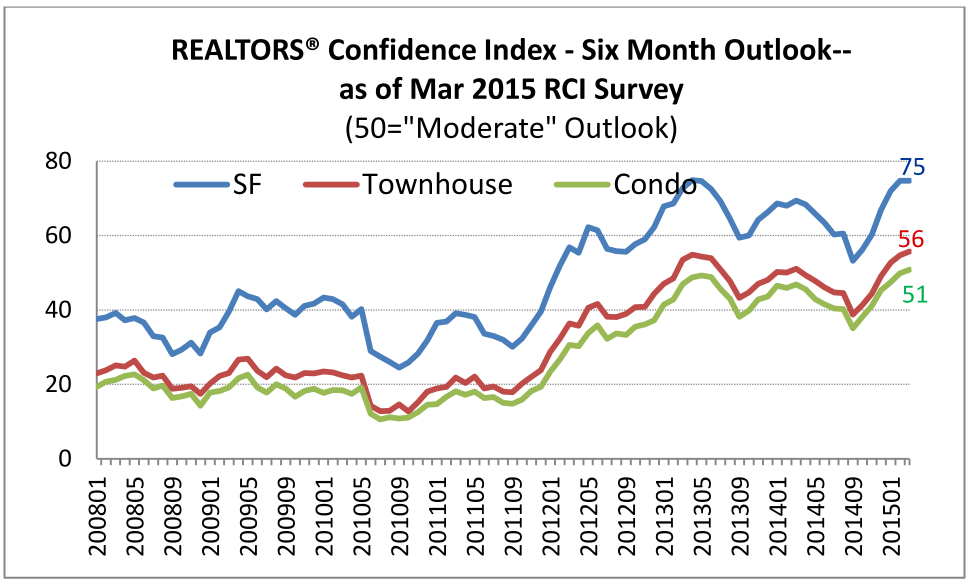
[3] These regulations pertain to ownership occupancy requrements, delinquent dues, project approval process, and use for commercial space. Read the Statement of NAR Sumbitted for the Record to the Senate Committee Housing and Banking Affairs on December 9, 2014 at htttp://www.ksefocus.com/billdatabase/clientfiles/172/1/2180.pdf

[4] 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 not adjusted for seasonality effects.

REALTORS'® Confidence About the 6-Month Outlook Improved in March 2015

In March 2015, REALTORS® were increasingly more confident about the outlook for all property types in the next six months compared to the case in February and a year ago.[5] For the second month in a row, the index rose above 50 for all property types. In the single family market, the *REALTORS® Confidence Index - Six-month Outlook* stayed at 75 (75 in February 2015; 69 in March 2014). The index for townhomes rose to 56 (55 in February 2015; 51 in March 2014), while the index for condominiums increased to 51 (50 in February 2015; 49 in March 2014). An index greater than 50 indicates that the number of respondents with "strong" outlook outnumbered those with "weak" outlook.

The seasonal uptick in market activity during spring and summer, low interest rates and a sustained growth in jobs, and recent measures to lower the cost of borrowing and make credit more available (e.g, lower FHA mortgage insurance, 3 percent downpayment GSE-backed loans, and relaxation and clarity regarding lender buyback of loans they originate) are likely underpinning the improved market confidence.



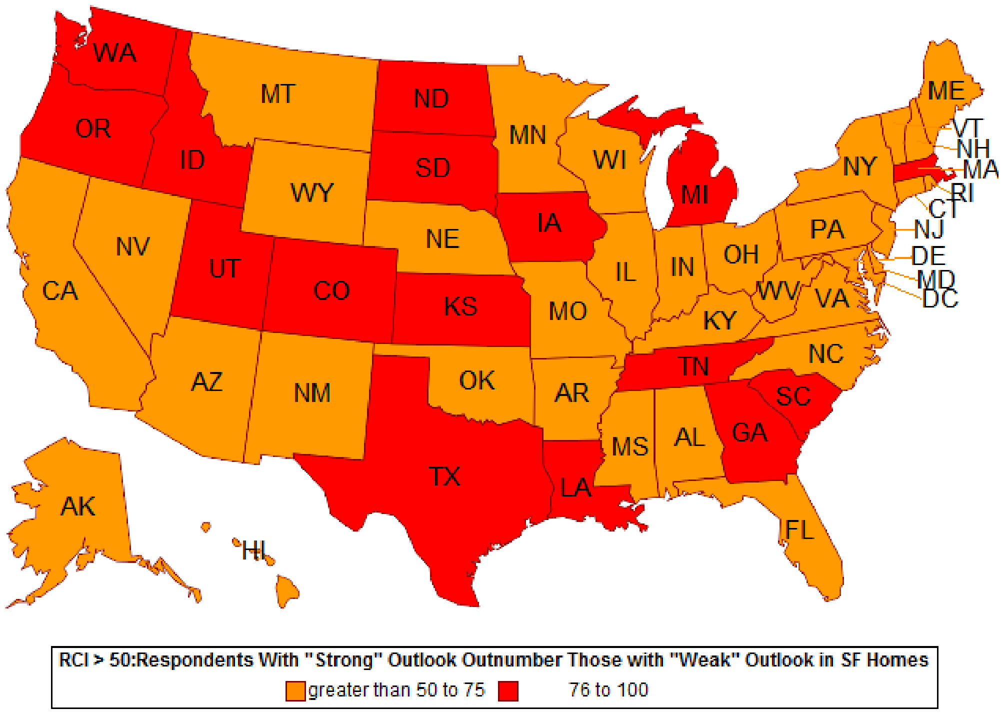
The following maps show the *REALTOR® Confidence Index-Six-Month-Outlook* by state .[6] In the case of single family homes, all states registered an index greater than 50 for the second month in a row, which means that the number of respondents who had a "strong" outlook outnumbered those with "weak" outlook. Although there is increasing concern about the negative effect of the decline in oil prices, the indexes in major gas-oil producing states such as North Dakota, Texas, Louisiana, and Oklahoma were still above 50. In the townhomes and condominium markets, more states registered indexes above 50 than in 2010-2014. First-time

[5] Respondents were asked "What are your expectations for the housing market over the next six months compared to the current state of the market in the neighborhood(s) or area(s) where you make most of your sales?"

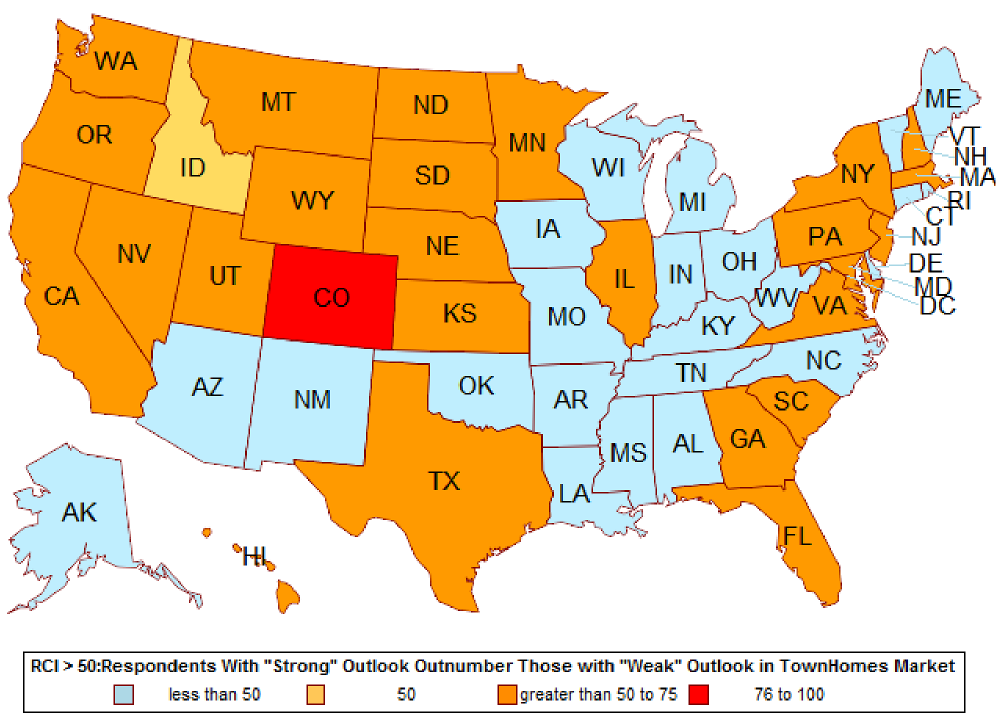
[6] The market outlook for each state is based on data for the last 3 months to increase the observations for each state. Small states such as AK,ND, SD, MT, VT, WY, WV, DE, and the D.C. may have less than 30 observations.

homebuyers, typically starter households, and move-down buyers, typically retirees, are more likely to buy townhomes and condominiums.

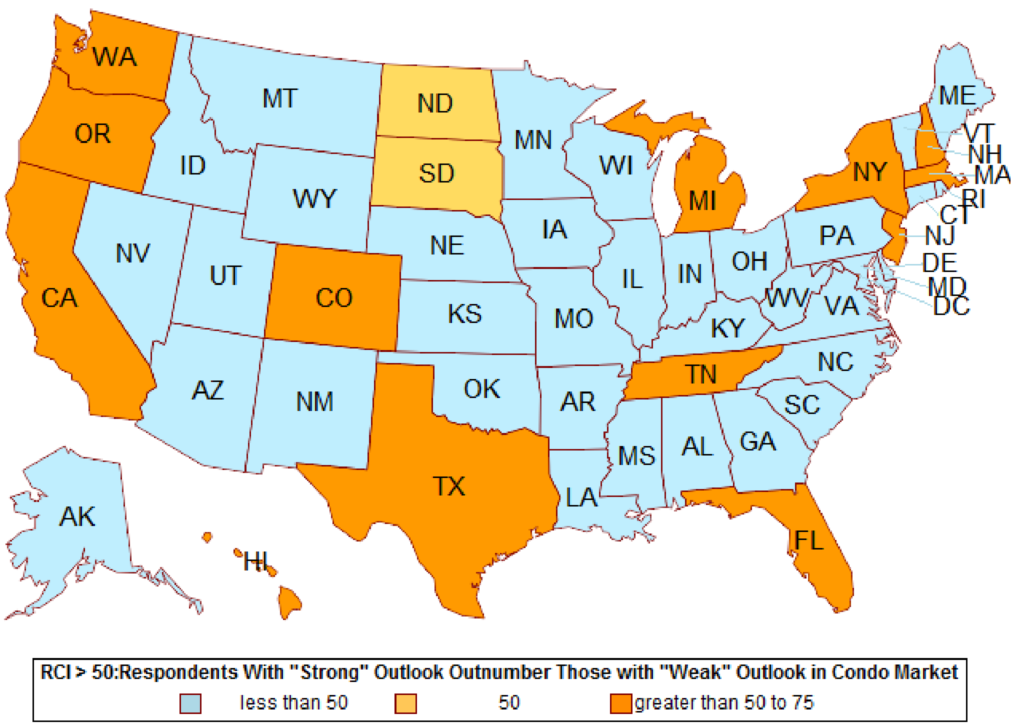
REALTORS(c) Confidence Index: Outlook in Next Six Months for Single-Family Homes Based on Jan 2015-Mar 2015 RCI Surveys



REALTORS(c) Confidence Index: Outlook in Next Six Months for Townhouses Based on Jan 2015-Mar 2015 RCI Surveys



REALTORS(c) Confidence Index: Outlook in Next Six Months for Condominiums
Based on Jan 2015-Mar 2015 RCI Surveys

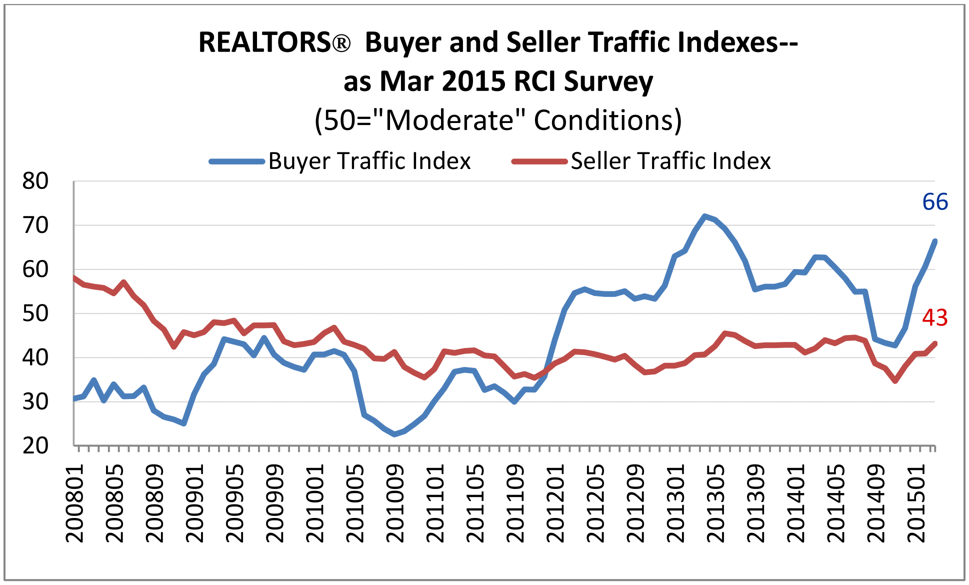


Buyer Traffic Continued to Outpace Seller Traffic in March 2015

More REALTORS® reported “strong” buyer traffic in their local markets in March 2015 than in February 2015 and a year ago[7]. The Buyer Traffic Index rose to 66 (61 in February 2015; 63 in March 2014) . An index greater than 50 indicates that more respondents viewed traffic as “strong” than those who viewed traffic as “weak.” Respondents reported greater interest by prospective buyers, given mortgage rates hovering at below 4 percent and measures to make credit more available to first-time homebuyers through lower FHA mortgage insurance premiums (0.5 percentage point reduction starting in January 2015) and the re-introduction of the 3 percent downpayment product for GSE- securitized loans.

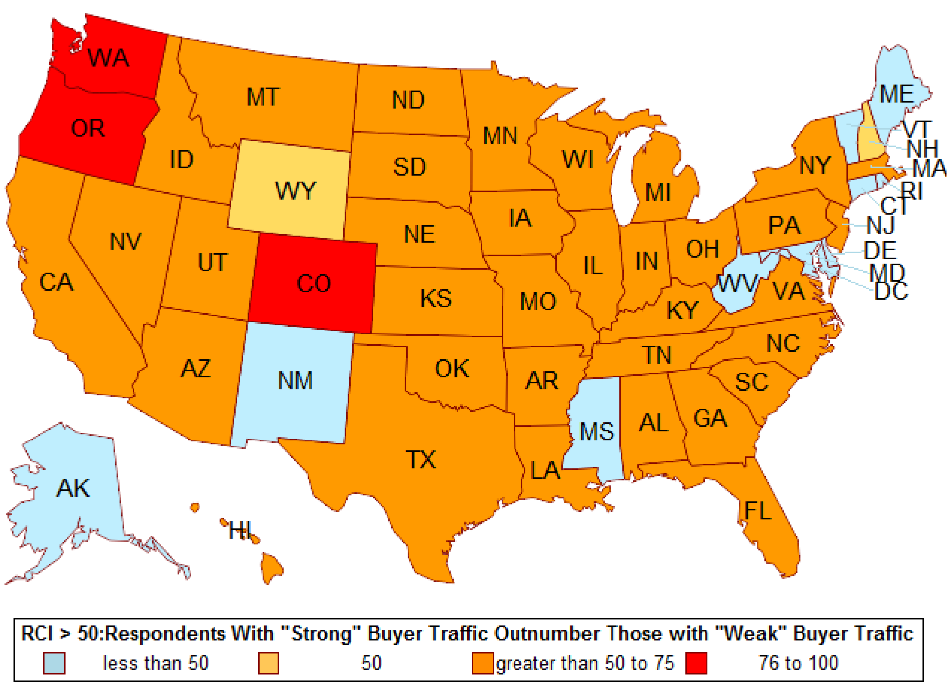
However, supply remains tight, although improving. REALTORS® reported a severe inventory shortage in most areas, especially for properties in the lower price range and for those that are move-in ready. The Seller Traffic Index registered at 43 (41 in February 2015 and 42 in March 2014). The supply of existing homes has been tight with the construction of new homes coming in at below the normal pace of 1.5 million units required arising from household formation and the replenishment of depreciated housing.

[7] Respondents were asked “How do you rate the past month's traffic in the neighborhood(s) or area(s) where you make most of your sales?”

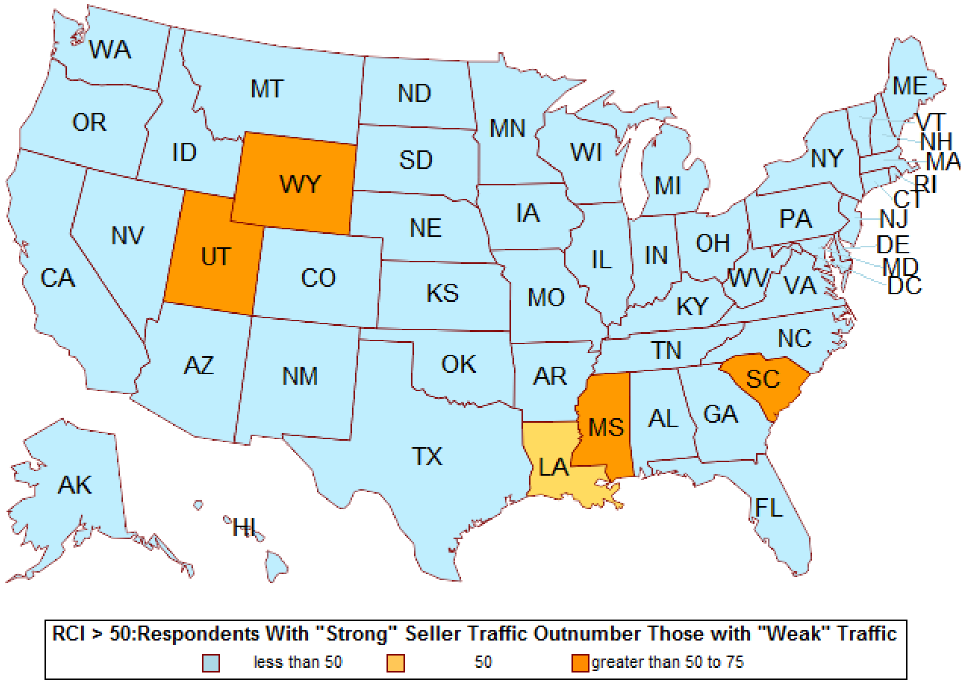


The following maps show the buyer and seller traffic index by state . An index below 50 indicates that more REALTOR® respondents viewed traffic conditions as "weak" compared to those who viewed conditions as "strong." Buyer traffic was broadly "strong" in most states, with Washington, Oegon, and Colorado having the most diffused growth. Meanwhile, the Seller Traffic Index registered below 50 in most states, except in Utah, Wyoming, Lousiana, Mississippi, and South Carolina.

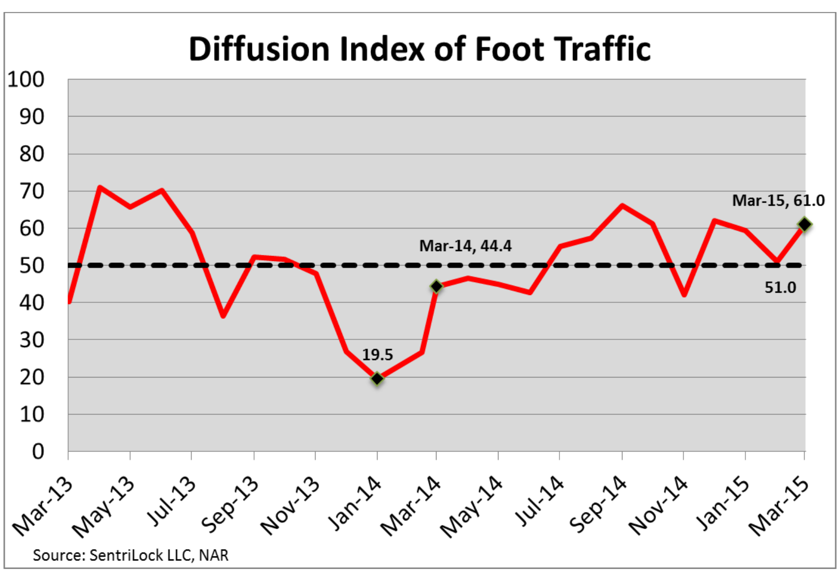
REALTORS(c) Buyer Traffic Index
Based on Jan 2015-Mar 2015 RCI Surveys



REALTORS(c) Seller Traffic Index
Based on Jan 2015-Mar 2015 RCI Surveys



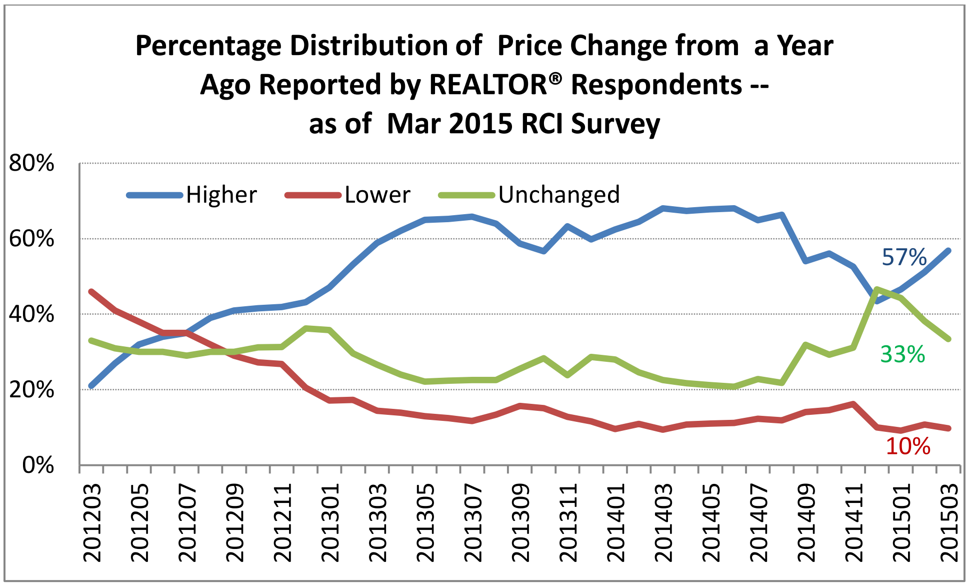
NAR also tracks data on the number of properties shown by REALTORS® using Sentrilock, LLC data. Low mortgage rates, better FHA pricing, temperate weather, and improved consumer confidence drove a sharp rise in foot traffic in March 2015. The improvement in traffic aligns with other reading of the market like mortgage applications and points to a strong spring market. Showings need not necessarily translate to sales, but foot traffic has a strong correlation with future contracts and home sales.[8]



[8] For more information on the Foot Traffic Index based on Sentrilock data, please contact Ken Fears, Director, Regional Economics and Housing Finance Policy at kfears@realtors.org.

REALTORS Reported Stronger Home Price Growth in March 2015

With demand rising while supply remains contrained, the pace of home price growth appears to be on the rise after price growth slowed in 2014. Approximately 57 percent of REALTOR® respondents reported that the price of their "average home transaction" was higher in March 2015 compared to a year ago[9] (51 percent in February 2015; 68 percent in March 2014). Rising prices have made homes less affordable for buyers. On the other hand, the increase in prices has put more homeowners in positive equity position, enabling current homeowners to use the equity gain as a downpayment or to pay cash for a "move-up" or "move-down" purchase.



REALTORS'® Price Expectations in the Next 12 Months

In March 2015, REALTORS® expected prices to increase in the next 12 months, with the median expected change at 3.5 percent (3.4 percent in February 2015; 4.2 percent in March 2014). The map shows the median expected price change in the next 12 months for each state based on the Jan 2015 –March 2015 surveys[10]. All real estate is local. State-level data is provided for REALTORS® who may want to compare local markets against the state trend.

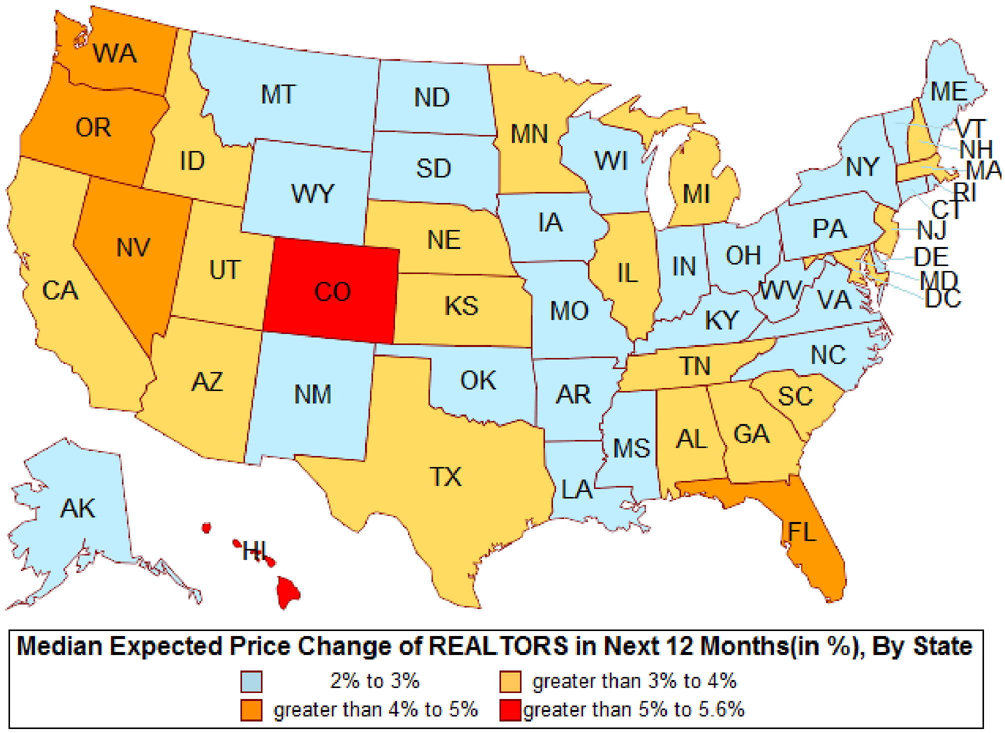
States with the most upbeat price expectations included Colorado, Washington, Oregon, Nevada, and Florida. With oil prices still at a slump, REALTORS® expect more modest price

[9] Respondents were asked "Considering your average home transaction in the past year (either buyer or seller side), at what average price would the very same home be sold for today?"

[10] In generating the median price expectation 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.

growth in the range of 2-3 percent in North Dakota, Oklahoma, and Wyoming. Texas appears to be dealing with the oil slump better, with home prices expected to increase at 3-4 percent.

Median Expected Price Change of REALTORS® in Next 12 Months, By State
Based on Jan 2015-Mar 2015 RCI Surveys

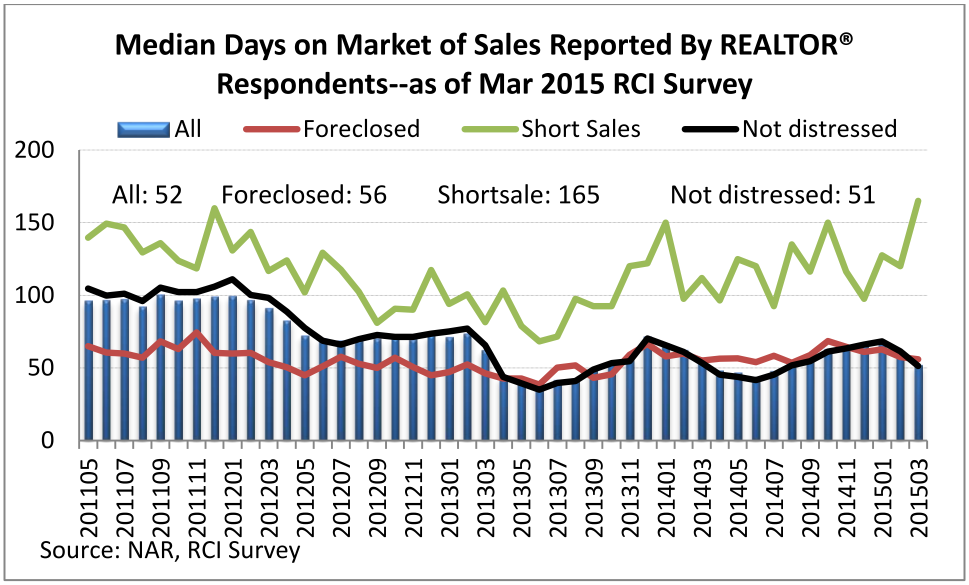


Properties Stayed for Shorter Days on the Market at 52 Days in March 2015

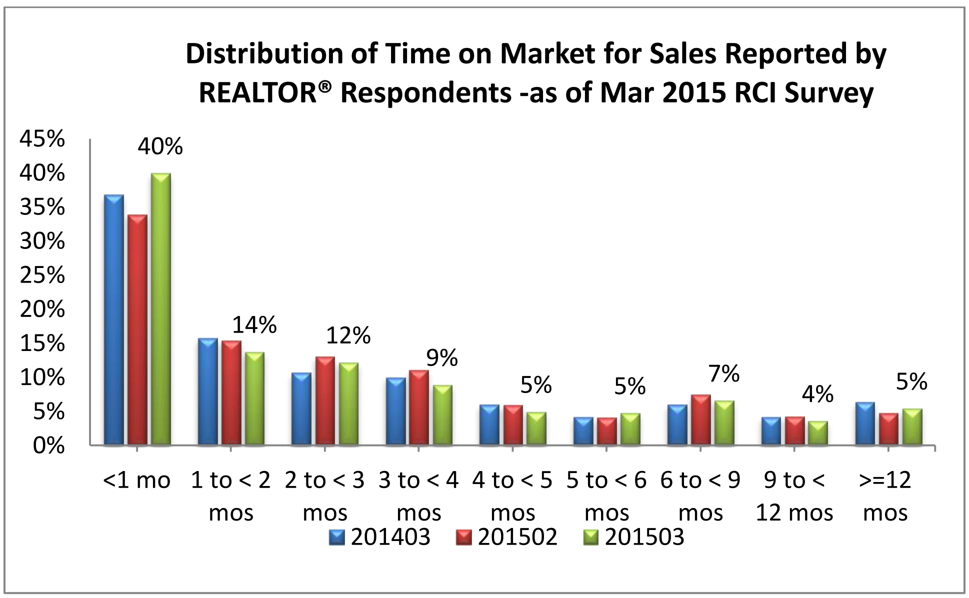
With tight inventory supply, properties that closed in March 2015 were typically on the market for a relatively short period of time at 52 days (62 days in February 2015; 53 days in March 2014)[11].

Short sales were on the market for the longest time at 165 days (120 days in February 2015; 112 days in March 2014) . Foreclosed properties were on market at 56 days (58 days in February 2015; 55 days in March 2014). Non-distressed properties were on the market at 51 days (61 days in February 2015; 53 days in March 2014).

[11] Respondents were asked "For the last house that you closed in the past month, how long was it on the market from listing to the time the seller accepted buyer's offer?"A median of x days means that half of the properties were on the market for less than x days and another half of properties were on the market for more than x days.

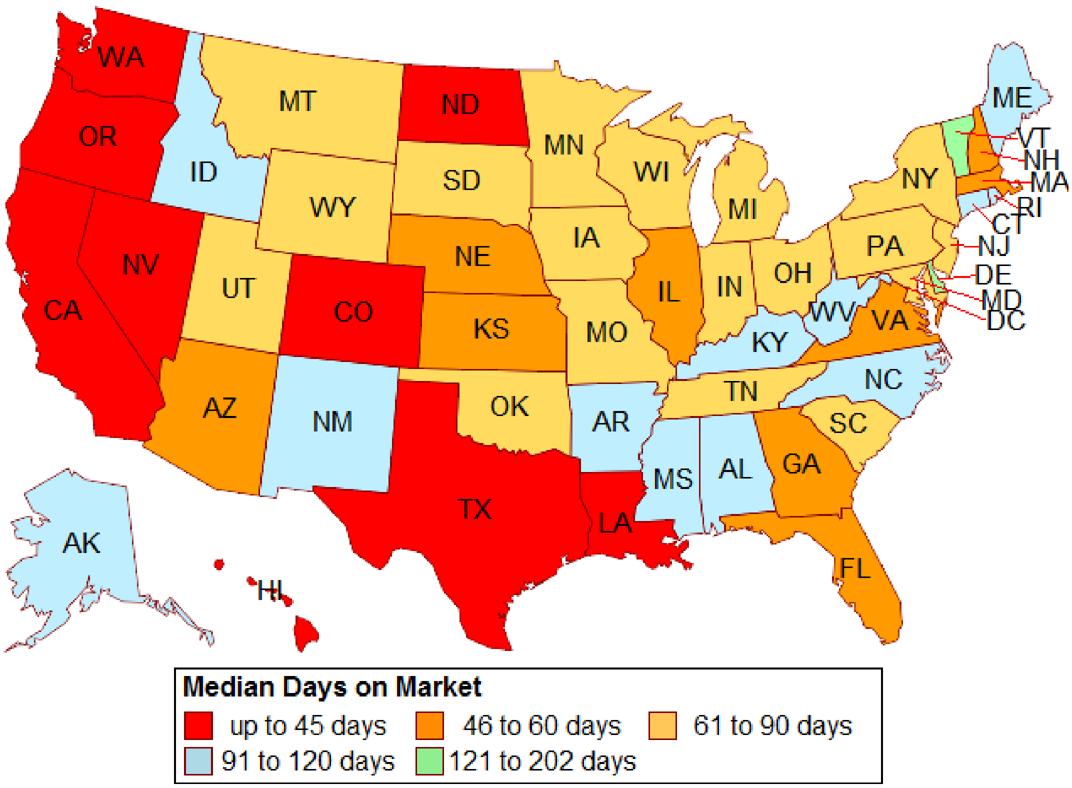


Approximately 40 percent of properties were on the market for less than a month when sold (34 percent in February 2015; 37 percent in March 2014).



Properties sold typically within 45 days in the West Coast states of California, Oregon and Washington whose economies are being fueled by the booming technology start-ups. Properties also typically sold within 45 days in North Dakota, Texas, and Louisiana, which appear to be weathering the slump in oil pricesAll real estate is local. State-level data is provided for REALTORS® who may want to compare local markets against the state and national summary.

Median Days on Market for Sales Reported by REALTORS®, By State
Based on Jan 2015-Mar 2015 RCI Surveys



II. Buyer and Seller Characteristics

Sales to First Time Buyers: 30 Percent of Sales

First-time homebuyers made up 30 percent of existing home sales in March 2015, at par with past months' levels (29 percent in February 2015; 30 percent in March 2014).[12] Recent measures to make mortgages more affordable and credit more available for first-time buyers (e.g, lower FHA mortgage insurance, 3 percent downpayment GSE-backed loans, and relaxation and clarity regarding lender buyback of loans they originate) were reported to be helping first-time homebuyers get back into the market.

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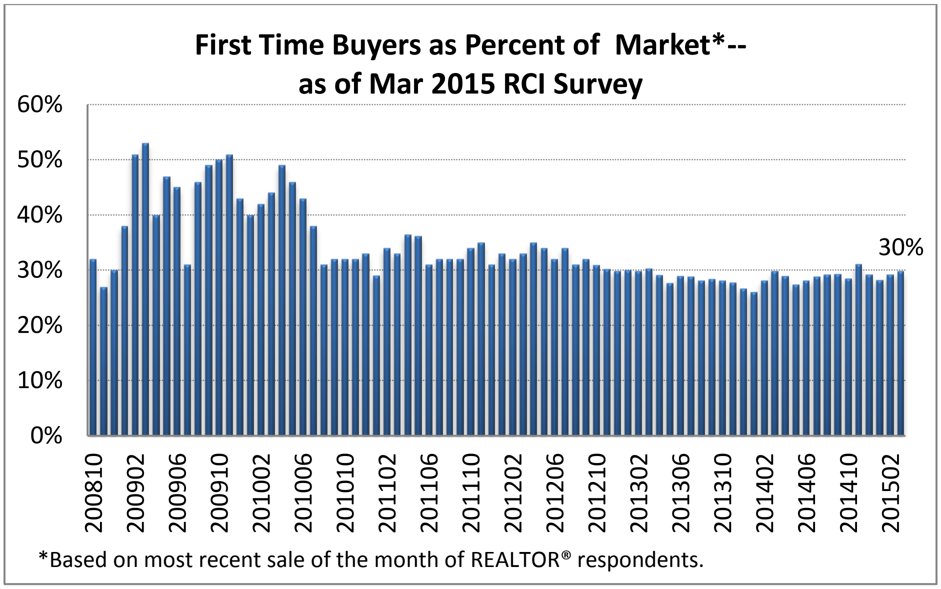
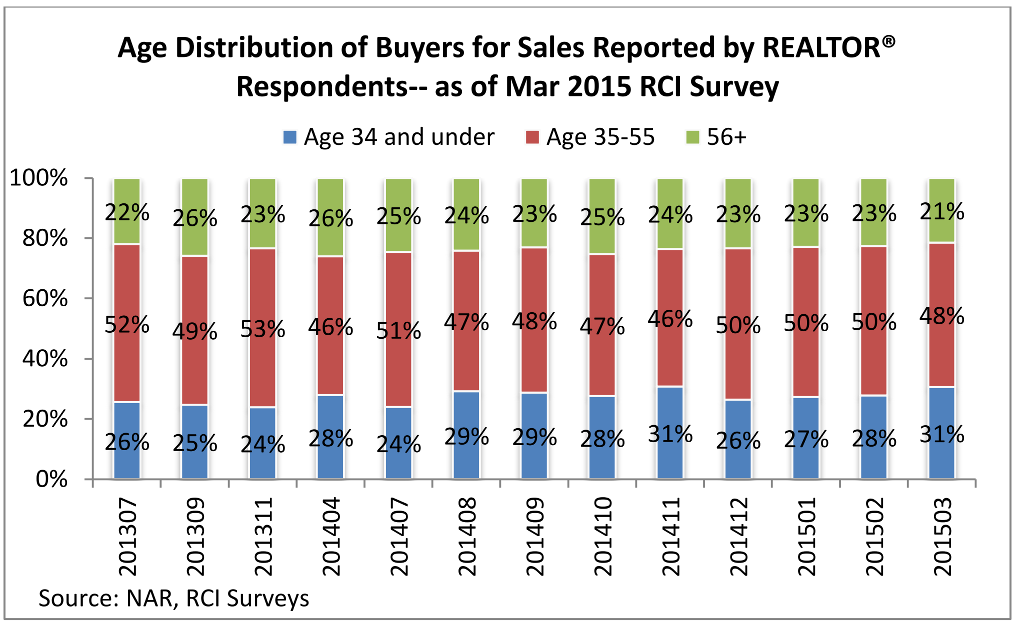
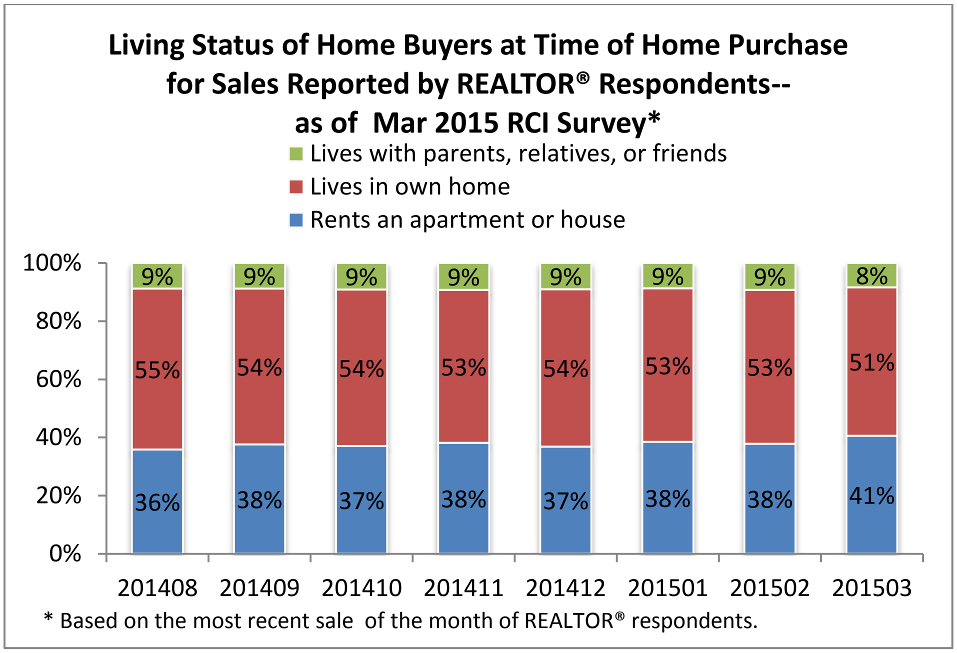
12 First time buyers accounted for about 33 percent of all homebuyers based on data from NAR's 2014 *Profile of Home Buyers and Sellers (HBS).* The HBS is a survey of primary residence homebuyers and does not capture investor purchases but does cover both existing and new home sales. The *RCI Survey*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



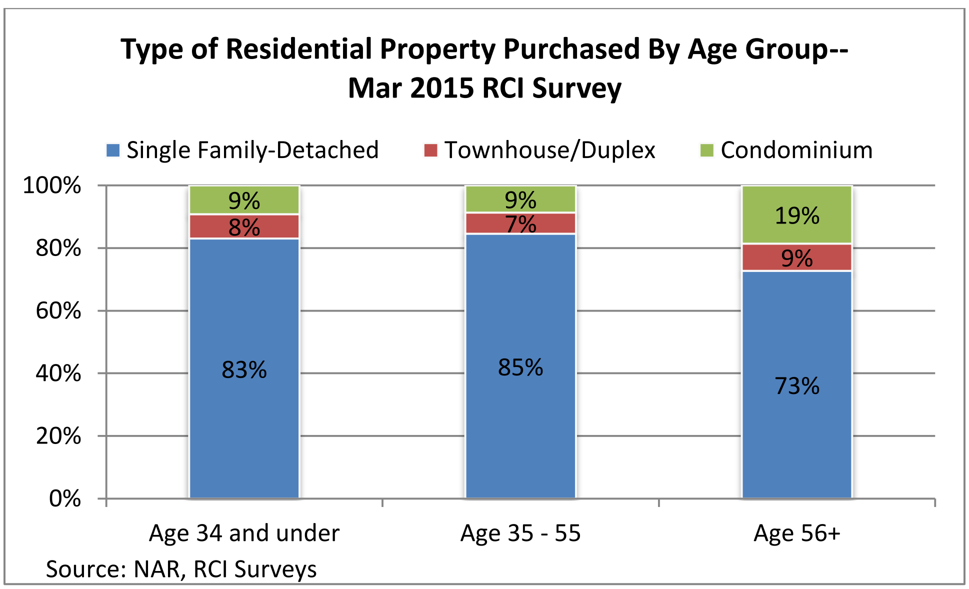
About 31 percent of all buyers were in the age group 34 and under, a group that has typically included first-time homebuyers.



About 41 percent of buyers were previously renters, a group that includes first-time homebuyers. The share appears to be on the rise from about 36 percent in 2014.

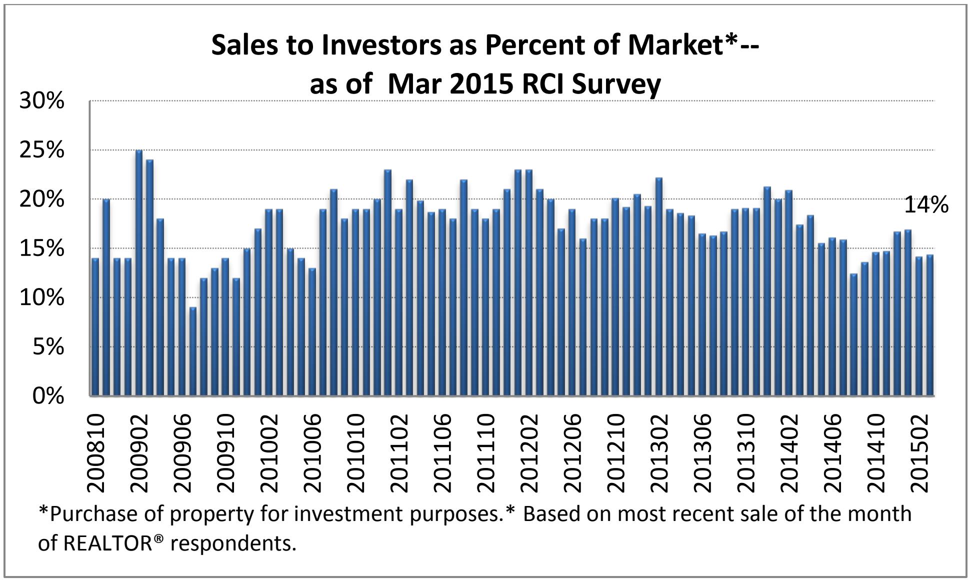


Buyers with ages 34 years and under are more likely to prefer a single-detached family home than buyers aged 55 and over who are likely "move-down" buyers with a preference for condominiums.



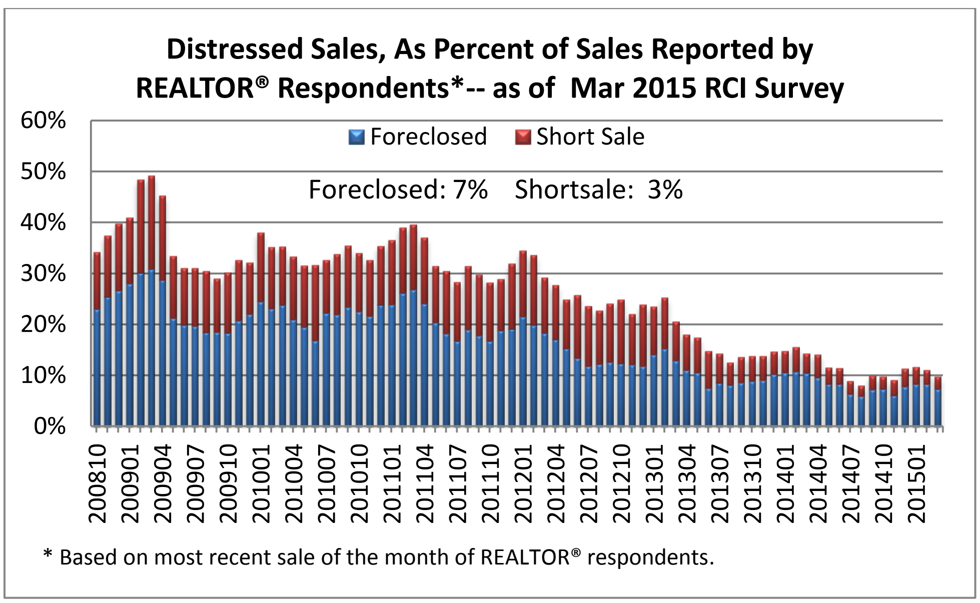
Sales for Investment Purposes: 14 Percent of Sales

Approximately 14 percent of REALTORS® reported that their last sale was for investment purposes (14 percent in February 2015; 17 percent in March 2014). Purchases for investment purposes have been on the decline as fewer properties are foreclosed.



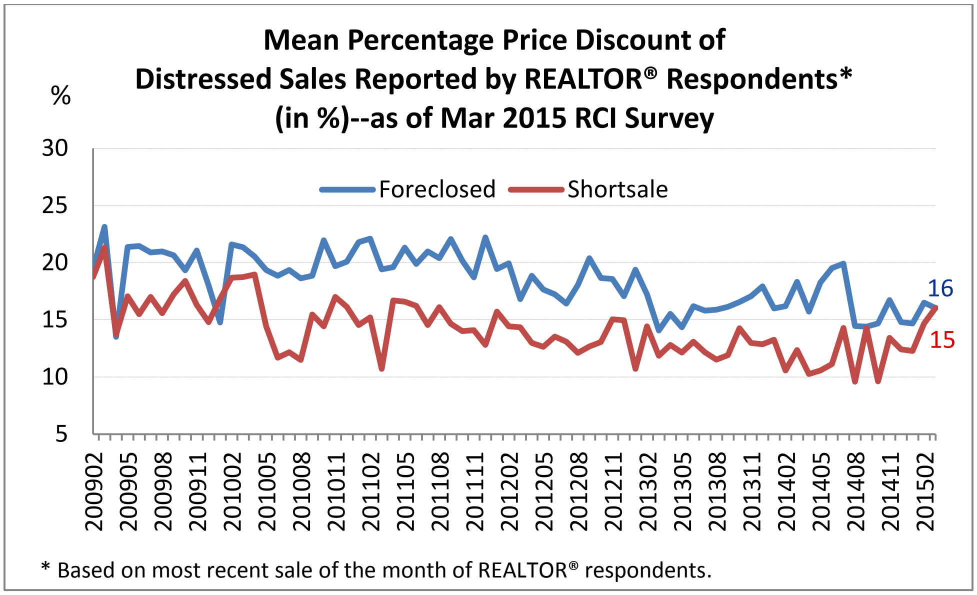
Distressed Sales: 10 Percent of Sales

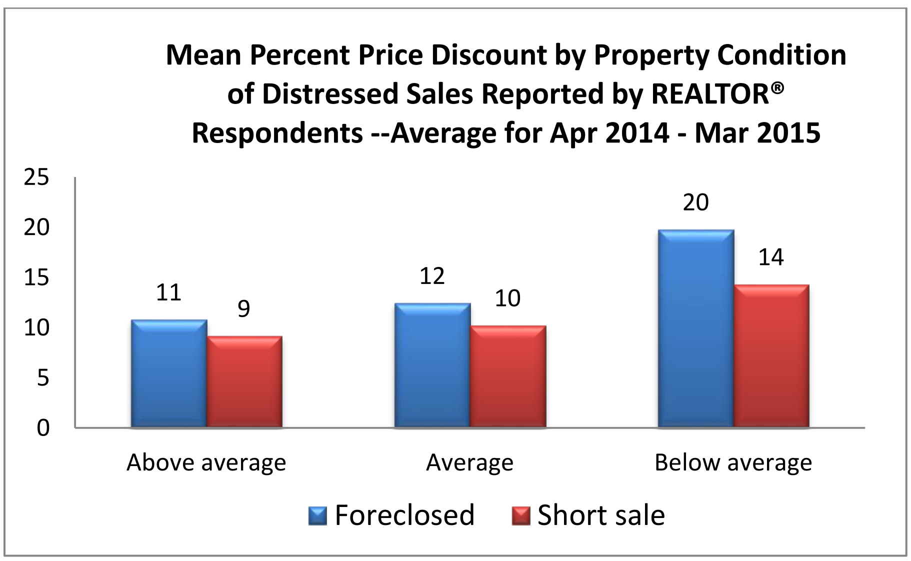
With rising home values and fewer foreclosures, the share of sales of distressed properties continue to decline. In March 2015, distressed sales accounted for 10 percent of sales: 7 percent of reported sales were foreclosed properties, and about 3 percent were short sales.[13] Fewer foreclosed properties on the market explains to some degree why investment sales have generally been on the decline.



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

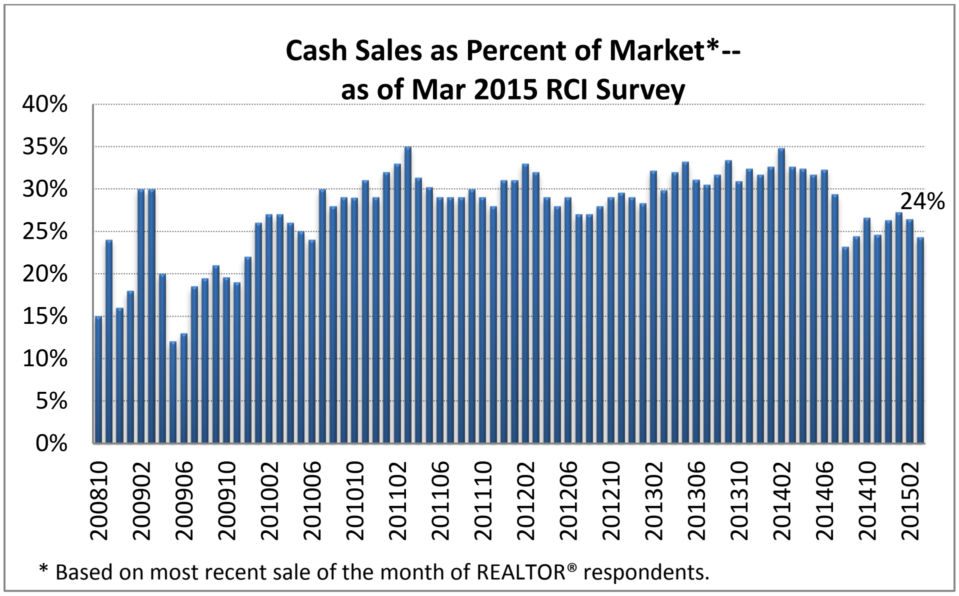
Foreclosed property sold at a 16 percent average discount, about the same as short sales which sold at an average of 15 percent discount. For the past 12 months, distressed properties in "above average" condition were discounted by an average of 9-11 percent, while properties in "below average" condition were discounted at an average of 14-20 percent.

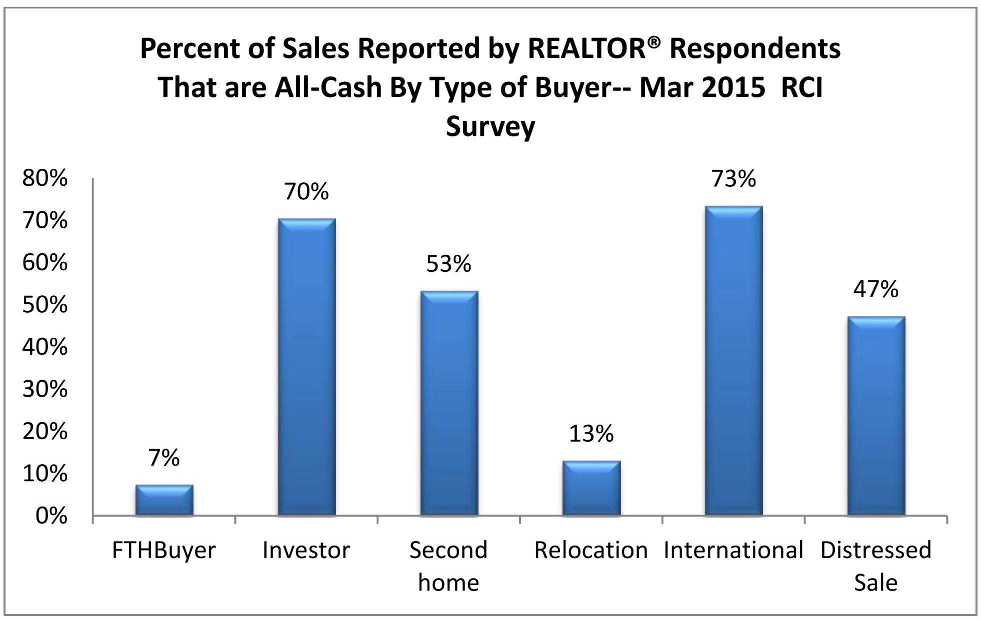




Cash Sales: 24 Percent of Sales

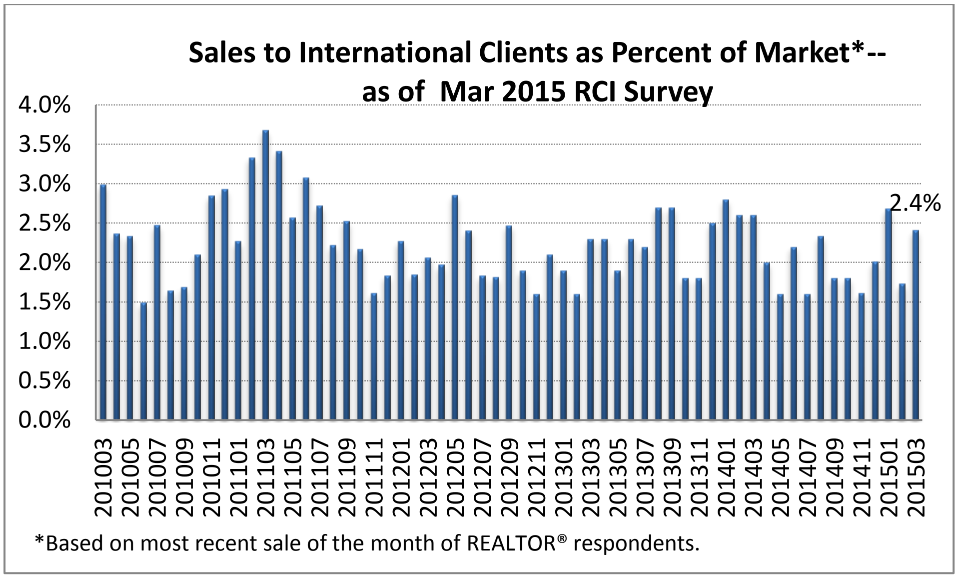
Cash sales appear to be on the downtrend. Approximately 24 percent of REALTOR® respondents reported that their last transaction was a cash sale (26 percent in February 2015; 33 percent in March 2014). Buyers of homes for investment purposes and second homes and foreign clients are more likely to pay cash than first –time home buyers. The declining share of sales for investment purposes and cash sales indicates that long-term homeowners, rather than investors, are increasingly driving the recovery.





International Transactions: 2.4 Percent of Residential Market

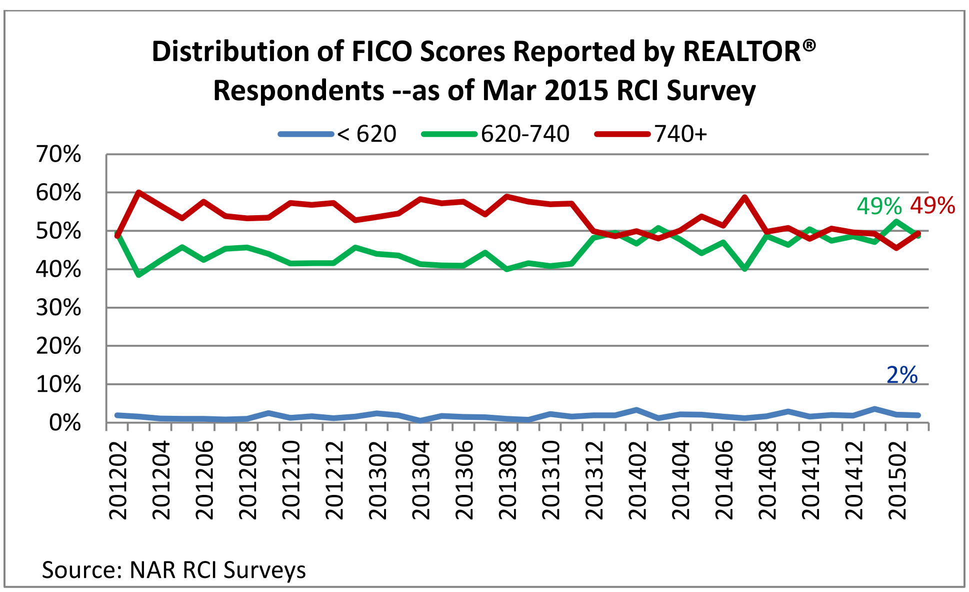
Approximately 2.4 percent of REALTOR® respondents reported their last sale was a purchase by a foreigner not residing in the U.S. International buyers frequently pay cash as well as purchase properties above the median price of the domestic buyer. There were reports that the strengthening of the dollar against most currencies, including the Canadian dollar, has caused a decline in homebuying by Canadian clients (FL, AZ).



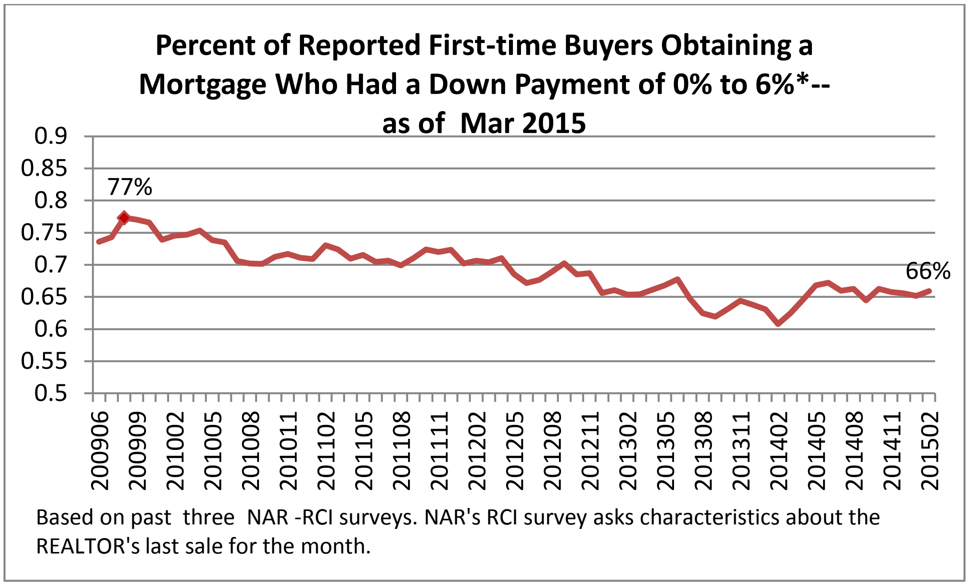
III. Current Issues

Credit Conditions Slowly Easing

REALTORS® have reported that credit conditions remain generally tight, with significant lender overlays and loan processing delays. However, credit conditions are slowly easing based on several indicators. The first indicator is the trend towards lower FICO from the high range of 740+ to the mid-range of 620-740. About 49 percent of REALTORS® providing transaction credit score information reported FICO credit scores in the range 740+, down from about 59 percent in August 2013.



The second indicator is the the increase in share of borrowers making 0 to 6 percent downpayment. Among first-time homebuyers who availed of a mortgage, 66 percent made a downpayment of 0 to 6 percent . Although this is a decline from the 77 percent figure in early 2009, this is higher than the 61 percent figure at the beginning of 2014, indicating some easing of credit. The reduction in FHA's monthly mortgage insurance premium (from 1.35 percent to 0.85 percent starting in Janauary 2015) and the availability of the 3 percent downpayment loan for GSE-backed loans are likely attracting borrowers who can only make a low downpayment.[14]



Thirdly, overly restrictive regulations are easing to strike a better balance between making credit more available to borrowers and ensuring that mortgage regulations are not creating undue systemic risks. In addition to the lowering of FHA mortgage premium payments and availability of 3 percent downpayment conventional mortgages, the GSEs also announced changes last November 2014 regarding the conditions when they will require originators to buy back mortgages they originated[15]. Banks have been overly cautious about their loan originations to avoid instances when they have to buy back these failed mortgages and hence assume the risk of the failed mortgage. These changes pertain to instituting a time frame within which bank will be asked to buy back the loan (e.g, allow 2 delinquecies within the first 36 months of the loan) and establishing a a significance test and benchmark for misstatements or misrepresentations that will trigger a loan buyback (e.g, allow up to 5 data inaccuracies before triggering a buy back).

[14] A low downpayment increases access to credit but does not make the loan more affordable since interest payments increase and the effective mortgage rate increases to reflect a higher perceived risk associated with low downpayment loans. On top of the risk adjustment factor, borrowers obtaining low downpayment loans also need to get and pay mortgage insurance.

[15] http://www.nationalmortgagenews.com/news/commentary/changing-winds-gses-rep-warrant-framework-part1-1043441-1.html

IV. Commentaries by NAR Research

Top Employment States and Metros (March 2015)

Lawrence Yun, Chief Economist

- Utah has taken the lead in job creation. North Dakota, Wyoming, Georgia, and Florida round out the top-five. At the other end, West Virginia, Montana, Maine, Mississippi, and Rhode Island are barely creating jobs.
- Due to the falling oil prices North Dakota lost its #1 ranking after many years of being on top. The other energy-producing states like Texas, Louisiana, and Oklahoma are also experiencing a deceleration in job gains – fewer job additions now compared to prior months.
- The low oil prices are a net positive for the country as a whole since consumers have additional money to spend and many companies' bottom line improves. For example, both North Carolina and South Carolina have quickly made it into the top-10 as job creations have significantly strengthened lately.
- Among the large metro markets, the technology companies are madly hiring in the San Jose region where jobs have expanded by 5.4%. Atlanta and Louisville are speeding at 4.6%. The national average is 2.3%.
- Among the smaller markets, there are many markets that have vacation homes. Here are the numbers:
    - Midland, TX 8.8%
    - Ocean City, NJ 8.6%
    - Lake Charles, LA 8.5%
    - Odessa, TX 7.9%
    - Greeley, CO 7.8%
    - Bend, OR 6.9%
    - Provo, UT 6.3%
    - Beaumont TX 5.7%
    - Farmington, NM 5.6%
    - Myrtle Beach, SC 5.6%
    - Coeur d'Alene, ID 5.5%
    - Janesville, WI 5.1%
    - Naples, FL 5.0%

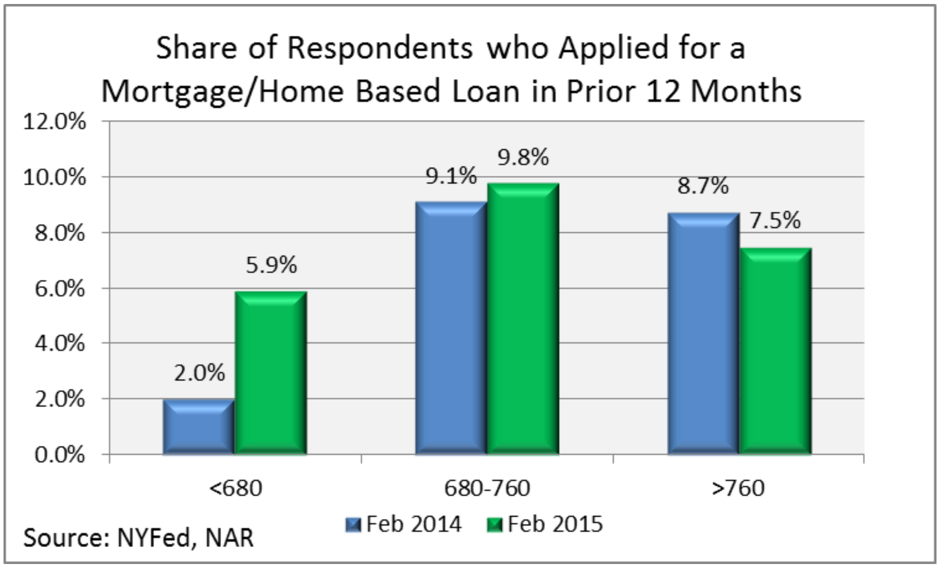
- Why is Utah doing well? This is a self-serving announcement but a factual one. The current governor of Utah is a former REALTOR® and well knows the importance of real estate to the economy. Governor Gary Herbert had served in many of NAR's committees in the past. Utah as a state, furthermore, plays an outsized role in terms of RPAC contribution (REALTOR Political Action Committee). Something for other states to think about.

Rank	State	Net New Jobs (over 12 months)	Job Growth Rate (12-month % change)	Stronger or Weaker compared to the prior month
1	Utah	55,100	4.2	Stronger
2	**North Dakota**	**17,800**	**4.0**	**Weaker**
3	Wyoming	5,200	4.0	Stronger
4	**Georgia**	**157,000**	**3.9**	**Stronger**
5	Florida	279,900	3.6	Weaker
6	**Colorado**	**83,500**	**3.5**	**Stronger**
7	Oregon	58,300	3.5	Weaker
8	**Nevada**	**40,400**	**3.4**	**Weaker**
9	North Carolina	138,100	3.4	Stronger
10	**South Carolina**	**65,500**	**3.4**	**Stronger**
11	California	489,300	3.2	Stronger
12	**Texas**	**362,400**	**3.2**	**Weaker**
13	Washington	95,000	3.2	Weaker
14	**Arizona**	**71,500**	**2.8**	**Stronger**
15	Idaho	18,000	2.8	Weaker
16	**Arkansas**	**28,700**	**2.5**	**Weaker**
17	Kentucky	42,700	2.4	Stronger
18	**Delaware**	**9,700**	**2.3**	**Stronger**
19	Tennessee	61,000	2.2	Weaker
20	**Alabama**	**37,900**	**2.0**	**Stronger**
21	Indiana	59,100	2.0	Weaker
22	**Michigan**	**82,600**	**2.0**	**Weaker**
23	New Mexico	15,900	2.0	Stronger
24	**Wisconsin**	**55,700**	**2.0**	**Stronger**
25	Maryland	49,800	1.9	Stronger
26	**Vermont**	**5,400**	**1.8**	**Stronger**
27	Massachusetts	55,100	1.7	Weaker
28	**New York**	**151,800**	**1.7**	**Weaker**
29	Connecticut	25,300	1.6	Weaker
30	**Iowa**	**24,400**	**1.6**	**Stronger**
31	Minnesota	45,200	1.6	Stronger
32	**Ohio**	**81,900**	**1.6**	**Weaker**
33	Kansas	20,600	1.5	Stronger
34	**Missouri**	**39,100**	**1.5**	**Weaker**
35	Oklahoma	23,200	1.4	Weaker
36	**Alaska**	**4,300**	**1.3**	**Weaker**
37	Illinois	77,300	1.3	Stronger
38	**New Jersey**	**48,700**	**1.3**	**Stronger**
39	Louisiana	23,500	1.2	Weaker
40	**Pennsylvania**	**70,600**	**1.2**	**Stronger**
41	South Dakota	5,000	1.2	Stronger
42	**Nebraska**	**10,800**	**1.1**	**Weaker**
43	Virginia	42,300	1.1	Stronger
44	**Hawaii**	**5,800**	**0.9**	**Weaker**
45	New Hampshire	5,700	0.9	Weaker
46	**Rhode Island**	**4,200**	**0.9**	**Weaker**
47	Mississippi	9,400	0.8	Weaker
48	**Maine**	**2,400**	**0.4**	**Stronger**
49	Montana	1,200	0.3	Weaker
50	**West Virginia**	**2,000**	**0.3**	**Stronger**

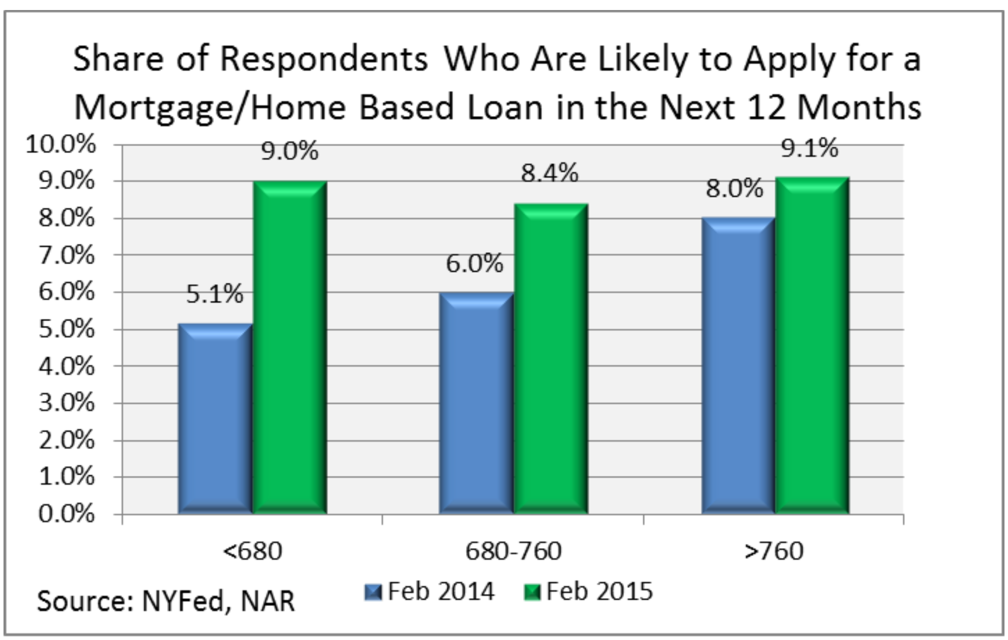
Consumer Interest in Housing Gains Momentum

Ken Fears, Director, Regional Economics and Housing Finance Policy

The Federal Reserve Board of New York released its update to the Survey of Consumer Expectations this morning. Consumer optimism toward housing has improved significantly at the lower credit spectrum from last spring, and remains robust at the middle and upper credit tiers. The positive trend relative to a year ago points to sustained improvement in demand for housing in 2015.



The share of lower-FICO borrowers who applied for a mortgage in February was 5.9%, up from 4.2% four months earlier and more than doubling the figure from February of 2014. As the survey data is not seasonally adjusted, it's better to track the year-over-year trend. The share of borrowers in the middle tier of FICOs also rose from a year ago. However, the share of high-FICO borrowers fell modestly over this period.

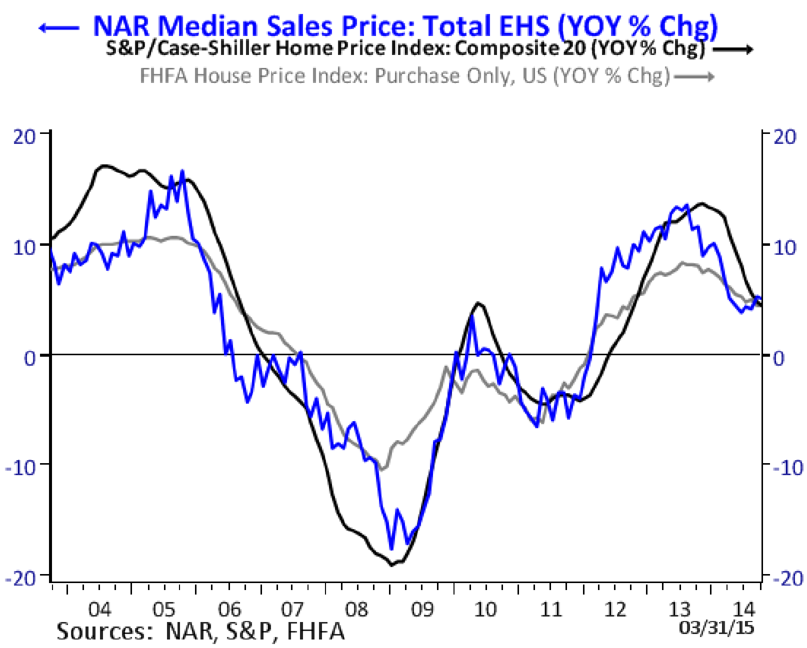


More importantly, over the next 12-month period, borrowers in all credit tiers expect to apply for mortgage credit at higher rates than they did last February. Lower-credit borrowers expect to apply at a 75% higher rate than a year earlier, while middle and upper credit borrowers expect to apply at 40% higher and 14% higher rates, respectively. This across-the-broad improvement bodes well for a robust housing market in 2015. It also suggests improved millennial participation and household formation, which is likely fueled by improved employment trends. The improvement at the lower credit spectrum also likely reflects concerted efforts on the part of the administration to improve credit access via new low-down payment products from Fannie Mae and Freddie Mac, better pricing from the FHA and relaxation overlays by the retail operations of some banks that have resulted from changes to the rep and warrant framework. Constrained supply and supply miss-match remain a headwind to home sales, though.

NAR Analysis of Case Shiller Price Index

Danielle Hale, Director, Housing Statistics

- Today, Case Shiller released their housing price index data for January 2015 which showed that house prices rose 4.4 percent from December one year ago for the 10-city composite, 4.6 percent for the 20-city composite, and 4.5 percent for the national index.
- Last week NAR reported growing prices in January and February. Price growth in the year ended February 2015 was 7.5% after rising 5.2% in January. FHFA January data showed a gain of 5.1% for the year ended January 2015.



- Case Shiller's city by city data show some areas are increasing at a faster pace in January over December though this trend is not yet evident in the headline figures. Fourteen cities saw accelerating prices including Chicago (2.5% from 1.4%), Boston (4.7% from 3.8%), and

Charlotte (4.3% from 3.5%). The biggest weakening in year over year growth rates was seen in previously hot areas San Francisco (7.9% from 9.4%), Las Vegas (5.9% from 6.9%), and Tampa (5.7% from 6.4%).

- While the previous cities had the biggest changes in year over year growth rate, others top the list of areas with the fastest overall growth rates: Denver (8.4%), Miami (8.3%), and Dallas (8.1%) had the fastest growth in the year ending January 2015. By contrast, Washington DC (1.3%), Cleveland (1.6%), and New York (2.1%) had the slowest year over year growth. Therefore, it is critical that home sellers in slow appreciating markets properly price their home (not too high) in order to attract buyers.
- Case Shiller data, like NAR data is showing more even price growth across regions as prices picked up in previously slow growing areas and slowed down a bit in previously hot areas.
- NAR reports the median price of all homes that have sold while Case Shiller reports the results of a weighted repeat-sales index. Case Shiller uses public records data which has a reporting lag. To deal with the lag, Case Shiller data is based on a 3 month moving average, so reported January prices include information from repeat transactions closed in November, December, and January. For this reason, the changes in the NAR median price tend to lead Case Shiller and may suggest that a slight pick-up in prices will be seen in the next few months.

Addressing Client Questions

Jed Smith, Managing Director, Quantitative Research

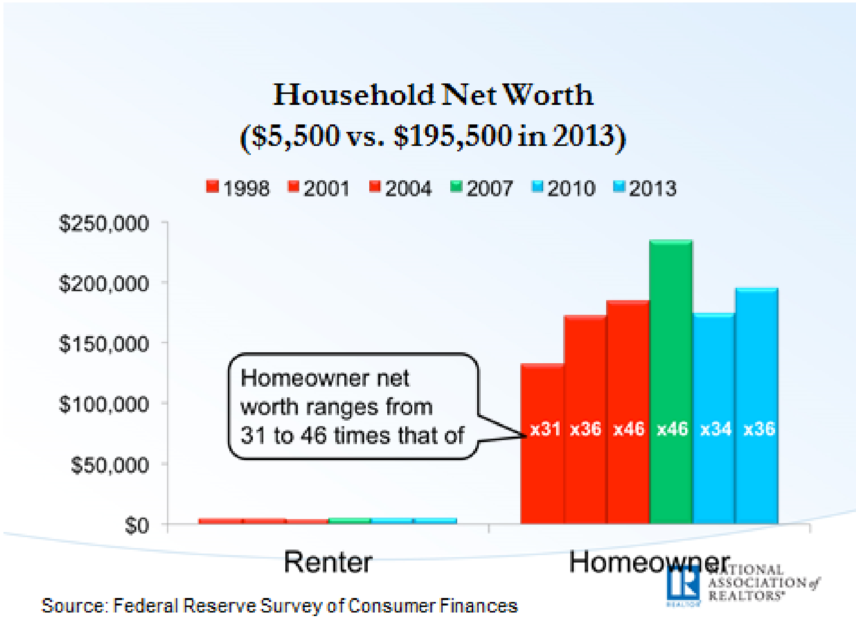
Some NAR Research information may be useful in addressing client questions—the type asked by nervous buyers in changing markets—like those we are currently experiencing.

Is Now a Good Time to Buy?

Quality of Life Benefits are independent of the underlying financial benefits, which are also substantial. NAR has detailed the *major benefits achieved by homeownership*: http://economistsoutlook.blogs.realtor.org/2012/03/27/social-benefits-of-homeownership-and-stable-housing/

- Higher student test scores by children.
- Higher rate of high school graduation thereby higher earnings.
- Children more likely to participate in organized activities--less television screen time.
- Homeowners take on a greater responsibility such as home maintenance and acquiring the financial skills to handle mortgage payments and those skills transfer to their children
- Lower teenage delinquencies.
- General increase in positive outlook to life.
- Homeowners reported higher life satisfaction, higher self-esteem, happiness, and higher perceived control over their lives.

Financial Benefits of homeownership are from a presentation by NAR Chief Economist Dr. Lawrence Yun. Families with homeownership have a much higher net worth than is the case for renters. Growth in mortgage equity and longer term price appreciation are the major assets for the middle class. The homeowner with a 30 year mortgage payment has a paid-off home after 30 years; the renter has a nice stack of 360 rental receipts.



Where are Interest Rates Headed?

Interest rates are in the news. The forecast is for a gradual increase: http://www.realtor.org/sites/default/files/reports/2015/embargoes/phs-03-30/forecast-04-2015-us-economic-outlook-03-27-2015.pdf.

Obviously, buying a home sooner rather than later in a rising interest rate environment may be a good idea. However, it is unlikely that changes in interest rates of the magnitude currently expected will have a controlling impact on the home purchase decision.

What do rising interest rates mean? As of March the 30 year mortgage interest rate was approximately 3.8 percent. On a median priced $202,000 house, monthly payments would be approximately $1231 per month (P&I: $847; Taxes: $219; Insurance $75; PMI $90).[16] A .5% interest rate increase to 4.3 percent would raise payments to $1,284, a 4.3 percent cost increase.

Rather than worrying about interest rates-- over which they actually have little control outside of shopping around among lenders-- potential home buyers need to focus on the availability of a mortgage money, which many REALTORS® report as tight. Respondents to the survey have been reporting that regional and community banks and credit unions may offer better opportunities for a loan than other financial institutions.

[16] http://money.cnn.com/calculator/real_estate/mortgage-payment/

What is the outlook for home prices?

No one really knows what housing prices will do in the short run: to quote J.P. Morgan on the stock market, "They will fluctuate." Experience during the Great Recession showed how markets become unpredictable during a crisis. However, for a number of the underlying drivers of housing prices the longer-run outlook appears good:

- Jobs: The U.S. continues to add jobs. Real estate and jobs vary together. A growing economy helps home sales.
- Households: Home sales were slightly under their year 2000 level in 2014, but the United States added an additional 17 million households over the intervening time period. As the millennials mature their demand for apartments is expected to decline as they move into homes.
- Housing Supply: The country needs to add 1.5 million housing units a year to accommodate population growth and housing demolitions. However, housing additions have recently been under 1 million a year: there are fewer available homes, which is a positive for home prices.

Three major drives of home prices seem to support current and rising home price levels. All real estate is local; in fact, in some areas of the country home prices appear to be increasing at a rate that may be too high. Put differently, everyone needs to live some place, and right now housing markets are tight in some areas—inventories of homes for sale are low. Homeowners tend to hold onto their homes for approximately 10 years after purchase. So housing market trends and an extensive holding period suggest that worries about short term temporary price fluctuations do not appear to be of great importance.

NAR's economic outlook is at http://www.realtor.org/research-and-statistics.