



# RPX MONTHLY HOUSING MARKET REPORT

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The complete RPX Monthly Housing Market Report for August 2010, containing detailed analysis, tables and charts covering all 25 metropolitan areas tracked by Radar Logic, is now available for sale.

To purchase the report or to get more information, please click [here](#).

## Executive Summary

### *Technical Problems in Foreclosure Process Threaten Housing Markets*

Despite recent steps by major lenders to resume foreclosures, the furor over defects in the way financial institutions process foreclosures has slowed home sales in many cities and threatens to further erode demand in the nation's housing markets. Financial firms claim that the problems are technical and will be resolved quickly, but these technical problems are raising questions about legal standing and suspicions of fraud that threaten to unleash a raft of legal challenges that could tie up foreclosures for months. Uncertainty over the legitimacy of the foreclosure process is driving down demand for foreclosed homes sold by financial firms and threatens to undermine the mortgage securitization process. If this happens, demand for all homes – bank owned or otherwise – could be severely damaged. In light of the burgeoning supply of homes for sale, such a blow to demand could precipitate dramatic new declines in home prices.

At the time of this writing, Bank of America Corp. has reopened more than 100,000 foreclosure actions after suspending foreclosure proceedings in all 50 states in early October. GMAC Mortgage is also pushing ahead with foreclosures and foreclosure sales after it stopped repossession cases in the 23 states that require judicial review of foreclosures.

The moves by Bank of America and GMAC Mortgage will likely encourage other giant lenders, like J.P. Morgan Chase and PNC Financial Services, to resume their foreclosures. Earlier this month, J.P. Morgan Chase announced a temporary foreclosure moratorium in 41 states as they review their procedures, and PNC suspended foreclosures in the 23 judicial review states.

Meanwhile, Bank of America has come to an agreement with title insurer Fidelity National Financial under which Fidelity will continue to provide title insurance for Bank of America's recently foreclosed homes. In exchange, Bank of America agreed to cover all court-related costs and settlements related to lawsuits against Fidelity. Bank of America is working on similar agreements with other insurers.

The agreement between Bank of America and Fidelity comes after some of the nation's largest title insurers said they would stop insuring foreclosed properties for lenders. Old Republic National Title Insurance, for example, announced at the end of September that it will not write new policies on homes that have been recently foreclosed upon by GMAC Mortgage or Chase. Lenders require buyers to have title insurance, so the suspensions imposed by title insurance companies effectively prohibit sales of bank-owned homes.

Notwithstanding the steps taken by lenders to resume foreclosures, the threat to the foreclosure process and the housing market has not passed. Banks argue that the problems with the foreclosure process are technical in nature and can be repaired swiftly, but these technical problems are sparking legal challenges that could tie up foreclosure proceedings for months. Lawyers for homeowners are filing lawsuits based on allegations that banks mishandled paperwork and attorneys general from all 50 states have jointly opened an investigation into whether lenders and mortgage companies falsified documents in foreclosure proceedings.

Banks could even face criminal charges. Federal law enforcement officials are investigating possible criminal violations in connection with the national foreclosure crisis, examining whether financial firms broke federal laws when they filed fraudulent court documents to seize people's homes.

During the course of legal proceedings, financial institutions could find that they lack the legal standing to foreclose. As they review their foreclosure procedures, banks may discover that they have lost or never received mortgage certificates. If this is so, they could have to spend months tracking down or re-filing mortgage documents, during which time they may have to suspend foreclosures and sales of foreclosed homes, both in states that require judicial review and those that do not.

Matters could get much, much worse if questions about title and mortgage ownership undermine the mortgage securitization system, which supplies lenders with cash for new mortgage loans. For over thirty years, banks have bundled and securitized mortgages in a process that requires ownership of mortgage loans to change hands a number of times. If banks cannot convince investors that their processes for transferring mortgage rights during securitization are sound and can stand up in court, then the securitization process could break down. Financing the purchase of a home would become much more difficult and demand for all homes – not just those sold by banks – would dry up.

Technical problems in bank procedures are already affecting the securitization process. Mortgage investors are stepping up efforts to recover losses on mortgage bonds containing loans with flawed paperwork. Pacific Investment Management Co., BlackRock Inc. and the Federal Reserve Bank of New York are seeking to force Bank of America Corp. to repurchase soured mortgages packaged into \$47 billion of bonds by its Countrywide Financial Corp. The bondholders are citing alleged failures by Countrywide to service loans properly, including insufficient record keeping.

### *Impact on the Housing Markets*

So what will happen in the housing markets if technical problems end up paralyzing the foreclosure process?

In the short term, the supply of homes for sale will be reduced. The enormous inventory of real estate owned by banks (REO) will be held off the market as financial institutions review their foreclosure procedures and address legal challenges. This reduction in supply will only be temporary, however, as the issues that precipitated the current crisis were technical, and their resolution will not address the root cause of the current torrent of foreclosures. Distressed borrowers will continue to owe more on their mortgage loans than their homes are worth, and – barring significant reductions in their outstanding loan principal - will remain unable or unwilling to make their mortgage payments. When the technical and procedural issues have been addressed and the legal challenges handled, financial institutions will once again resume foreclosures and REO sales.

Demand will decline in the short run as uncertainty over title makes homes that have been through the foreclosure process less desirable. Homebuyers will not want to purchase a home if there is a chance that the sale will subsequently be nullified because the bank did not have proper standing to foreclose on the home in the first place. A longer-lasting and more severe reduction in demand could arise if the securitization process clogs as described above. If securitization of agency debt were interrupted, the supply of mortgage financing would dry up and demand for all homes – in and out of foreclosure – would be drastically reduced.

By looking at the contribution of financial institutions to total home sales as of August 2010, we get an idea of how severe the effects of the current foreclosure crisis could be. In August, motivated sales (i.e. sales of foreclosed homes by financial institutions) accounted for over 25 percent of the 25-MSA RPX transaction count. Thus, if all motivated sellers suspended REO sales, home sales would decline by more than a quarter. Of course, the mix of motivated and other sales varies widely from city to city. A nation-wide suspension of foreclosure sales would reduce home sales in the Las Vegas metropolitan area more than home sales in the New York metropolitan area. This decline would be in addition to the usual decline in non-distressed sales between August and December due to seasonal factors.

Ironically, a nation-wide suspension of foreclosure sales could cause the RPX composite price to increase in the near term. Prices in foreclosure sales tend to be significantly less than prices in other sales. As the low-priced foreclosure sales are phased out, the aggregate price for homes will increase. It is important to note, however, that an increase in the RPX Composite caused by a shift in the mix of sales would be temporary and would not indicate appreciation in the value of individual homes.

If uncertainty over the reliability and legality of banks' foreclosure processes undermines the securitization process, then home values will fall significantly. Given the huge supply of homes for sale - there was an 11.6 months' supply of existing homes for sale in August according to the National Association of Realtors, whereas a 6 months' supply is considered typical

of a “normal” housing market - another significant blow to housing demand, which is already weak, could drive home prices significantly lower than they are now and keep them there for some time.

### *Sales and Prices Decline in August*

As of August 19, the 25-MSA Composite price had declined 0.7 percent on a month-over-month basis and 2.7 percent on a year-over-year basis.

The 25-MSA transaction count posted the largest month-over-month decline for the period since the beginning of Radar Logic’s historical data. Transactions also declined year over year.

### *August 2010 S&P/Case-Shiller Composite Home Price Indices*

In the RPX Housing Market Report for July 2010, which we released September 23, we used our Daily Prices to predict the S&P/Case-Shiller 10-City and 20-City composite home price indices for July. We predicted the 10-City index would be approximately 162, and the 20-City index would be about 149. The actual values, released September 28, 2010, were 162.27 and 148.91, respectively.

This month, we expect the S&P/Case-Shiller 10-City composite for August 2010 to be roughly 162 and the 20-City composite to be roughly 148. If our predictions are correct, the Case-Shiller composites will begin to exhibit the weakness in home prices that has been apparent in the RPX Composite for over a month.

## ***About Radar Logic***

Radar Logic Incorporated, a real estate data and analytics company, calculates and publishes the Radar Logic Daily™ Prices. The prices track housing values for major U.S. metropolitan areas and are the basis of the Residential Property Index™ (RPX™), a market that enables real estate to be traded as a liquid asset, via property derivatives marketed by major financial institutions.

RPX allows real estate and financial professionals to manage opportunity and risk, invest in real estate values without owning physical assets and effectively analyze markets using a consistent metric: price per square foot. Data in the RPX Monthly Housing Market Report reflect the 28-day aggregated value of Radar Logic Daily Prices. The price per square foot metric used significantly reduces the influence of property sizes on overall housing price trends, which can skew results.

The Daily Prices for each MSA are not adjusted for seasonal variations. In some cases, Daily Prices may vary based on reporting characteristics within individual MSAs. The RPX Monthly Housing Market Report provides insight and detailed analysis of Radar Logic's 25 MSAs and the Manhattan Condo market. This study is based on the premise that there is no national housing market; rather, each MSA, while having some economic influences in common, is influenced primarily by local conditions.

The September 2010 RPX™ Monthly Housing Market Report will be released on December 2, 2010, at 4:00 PM EDT.

## ***RPX Analytics & Research***

Radar Logic offers specialized analytic services which allow real estate and financial professionals to view current and historical price per square foot and transaction count trends for all markets and sub-markets we track. MSAs can be segmented by location (zip code and county), property type (single family, multi-family and condo), property size, date range, and sale price. The database is derived from our neutral, public source records.

Our data provide a means for all entities associated with or affected by housing prices to maintain market data streams on a constant, neutral and daily-updated basis.

For additional insight on this report or for inquiries about research or analytic products, please contact:

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