real estate insights

March 2007

Real Intelligence –
Real Advantages

In This Issue

Existing-home sales improved in January, rising 3.0 percent to a seasonally adjusted annual rate of 6.46 million units – the highest level in seven months. Single-family home sales rose 3.5 percent to a seasonally adjusted annual rate of 5.69 million in January, while existing condominium and cooperative housing sales slipped 0.1 percent to a seasonally adjusted annual rate of 767,000. The national median existing-home price for all housing types was $210,600 in January, down 3.1 percent from January 2006. While the median existing single-family home price decreased 3.5 percent from a year earlier, the median price for an existing condo/co-op rose 0.5 percent from January 20006. Total housing inventory levels rose 2.9 percent at the end of January to 3.55 million existing homes available for sale, which represents a 6.6-month supply at the current sales pace – unchanged from the revised December level. **Read more.**

The Subprime Mess. Yes, all the talk these days is about the fall-out from the subprime mortgage market. But what will be the real impact of that fall-out? Both our *Commentary*, by NAR Chief Economist David Lereah, and *Forecast* column, by Senior Forecast Economist Lawrence Yun, this month look at the effects of the subprime "mess" on the housing market. **See The Commentary on page 4, and The Forecast on page 6.**

Predatory Lending. Abusive and predatory lending practices are a major problem in many of our nation's communities. Real estate professionals have a strong stake in preventing predatory loan practices, and NAR is working diligently to promote educational and legislative initiatives that protect homeowners from predatory lending practices that could lead to foreclosure and loss of their "American dream." **Read more.**

Homebuying and the single woman. According to the U.S. Census Bureau, more than 50 percent of U.S. households are single-female households. And single-female home buyers are a significant market for many real estate professionals. In our *Market Intelligence* feature this month, we look "behind the numbers" on single female home buyers, including what kinds of homes they purchase, and their use of the Internet in the home search process. **Read more.**

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NATIONAL ASSOCIATION OF REALTORS®

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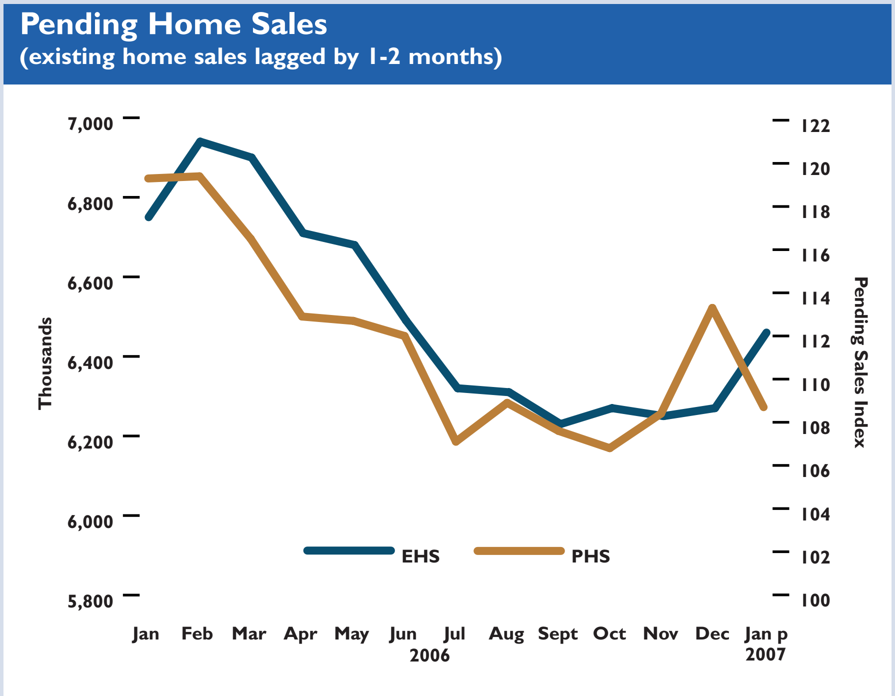
Real Estate Monitor

Monthly Indicator	Recent Figures		Likely Direction Over the Next Six Months	Forecast
Existing-home sales rose in January to 6.46 million units (seasonally adjusted annualized rate). While the solid 3.0% increase was a welcome sign for the housing market, the unusually mild January weather may have provided an additional bump to the figures. The inventory of existing homes available for sale rose as well to a 6.6-months supply – just above what would normally be considered for a "balanced" market. **Read more.**	Jan 07 Dec 06 Jan 06	6,460 6,270 6,750	↔	Small changes with a better chance for up than down
New home sales fell sharply in January, declining 16.6% to 937,000 units (seasonally adjusted annualized rate) – the lowest level in four years. The decline was not that surprising, given the 1.12 million unit sales posted in December. The inventory of new homes available for sale also fell to a 6.8-months supply. **Read more.**	Jan 07 Dec 06 Jan 06	937 1,123 1,173	↓	Fewer new homes being built
Housing starts also fell in January – to 1.41million units. The 14.3% decline from December put starts at their lowest level since 1997. Both single-family and multifamily starts decreased, and a very cold February in many parts of the country will likely hamper upcoming figures. The good news: because new home inventory is still above what is considered a "balanced" market, builders are being careful not to overflood the single-family market. **Read more.**	Jan 07 Dec 06 Jan 06	1,408 1,643 2,265	↓	Wall Street ready to punish any builders who do not show restraint
Housing affordability rose significantly in January. NAR's Housing Affordability Index for the month was 116.1 – a 5.9% increase from December's index and 7.4% ahead of the index posted in January 2006. The combination of continuing favorable mortgage rates and modest price declines in all four regions of the country helped improve affordability conditions. **Read more**.	Jan 07 Dec 06 Jan 06	116.1 109.6 109.6	↑	Income rising at about twice as fast as home prices
Mortgage rates rose seven basis points in February, and the 30-year fixed mortgage rate averaged 6.29% for the month. While that is the highest level in four months, interest rates are still historically low. If inflation picks up, higher rates are likely later in the year. **Read more.**	Feb 07 Jan 07 Feb 06	6.29% 6.22% 6.25%	↑	Better to commit now than later to lock in the lower rates
Purchase applications declined significantly in February. The Mortgage Bankers Association's mortgage purchase applications index registered 397.0 last month – the lowest level for any February since 2002. **Read more.**	Feb 07 Jan 07 Feb 06	397.0 430.8 406.6	↔	No measurable change
Employment Employers added 97,000 new jobs to nonfarm payrolls in February – fairly close to most analysts' expectations. While the month's job creation figure was the lowest in two years, data for both December and January were revised upward. Average hourly wages rose 0.4 percent from January. **Read more.**	Feb 07 Jan 07 Feb 06	97 146 200	↔	Job gains to continue but not robustly
Inflation The Consumer Price Index (CPI) rose 0.2% in January (seasonally adjusted), following an 0.4% increase in December. The core index – which excludes food and energy components – rose 0.3%. A rise in the index for medical care (.8%) accounted for nearly 60 percent of the increase. **Read more.**	Jan 07 Dec 06 Jan 06	0.2% 0.4% 0.6%	↓	Slowing economy dampens inflationary pressure

Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as a month-to-month percent change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Mortgage Bankers Association and Freddie Mac. This report reflects data as of March 9, 2007. Complied by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

NAR's Pending Home Sales Index

Pending home sales were down in January. NAR's Pending Home Sales Index – a leading indicator for the housing sector – fell 4.1 percent to 108.7. December's index was revised upward to 113.3, getting a boost from mild weather and posting the largest monthly gain in nearly three years. In spite of the most recent monthly decline, January's pending sales were the second highest since last August. The pending sales index is derived from pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not yet closed. Typically pending sales are finalized within one or two months of signing. An index of 100 is equal to the average level of contract activity during 2001, the first year to be examined and the first of five consecutive record years of existing-home sales. January's index shows that weather fluctuations are affecting the home buying market. In spite of the climate disruptions, there is an underlying pattern of stabilization in the housing market. **Read more.**



Source: NAR Research

The Subprime Mess

by David Lereah, *Chief Economist*

Just as children in an orderly classroom stir up a wild ruckus when the teacher leaves the room, some people and businesses stray from fundamental behavior during a frenzied market environment. It happens every time. During the savings and loan crisis of the 1980s, S&L senior management wastefully purchased expensive fine art while their institutions were crumbling. Investors purchased company stock at triple-digit price/earnings multiples during the giddy 1990s dot.com boom, ignoring fundamental investing principles. And in the aftermath of the nation's biggest real estate boom, we learn once again, about behavior in a frenzied environment. I call it, the subprime mess.

Many subprime households will probably, over time, purchase a home when they have attained the financial capacity to do so. So the long-term health of the housing market will probably stay in tact.

Caught in the real estate boom's great momentum, lenders granted mortgage loans with low starter (teaser) interest rates to high-risk borrowers without sound underwriting. Many of these loans were made to borrowers with little or no documentation of their financial capacity to service debt and required little or no down payment, leaving borrowers with virtually nothing at stake in the property if something went wrong. Of course, something went wrong – it always does.

Lenders bet that property prices would continue to rise, thus enabling borrowers to "refinance their way" out of trouble or sell for a nice profit. When property prices flattened or fell in many of the post-boom markets across the nation, that could no longer happen. Poor underwriting has led to higher delinquencies and foreclosures as the teaser rate periods end and monthly mortgage payments are re-set at higher interest rates. Over 30 subprime lenders that have made problematic loans have gone belly up with more on the way. Large lenders (insured banks and other lenders) and Wall Street companies that provide funding for the subprime marketplace got caught with their collective financial pants down. Now they and many of their borrowers are paying the price. Banks regulators – the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Federal Reserve tolerated a level of risk which was, in retrospect, excessive. And now the regulators have begun, justifiably, to toughen lending standards.

So now we are left with a subprime mess. The media is all over this, calling it a subprime tsunami, a debacle, a crisis. The regulators are responding with tough lending standards and restrictions. And Congress is holding hearings which promise to lead to tougher consumer protection laws. Some analysts are predicting that subprime problems will do meaningful harm to the housing sector, possibly leading to an economic recession. But let's take a deep breath and assess the situation, before succumbing to a subprime tsunami.

The subprime mortgage market comprised about 20 percent of the nation's lending volume during the past two years. Clearly, the recent fall-out has stifled subprime lending activity today. Many subprime lending companies have closed their doors and their sources of funds – the large banks and Wall Street – have tightened credit. The regulatory agencies have proposed stricter subprime lending guidelines, emphasizing sound underwriting, greater documentation, a debt-to-income analysis that includes taxes and insurance, and qualifying borrowers on a fully indexed mortgage rate rather than the starter rate.

What's ahead? I would expect a drop-off of subprime originations this year and next. Yes, it is *possible* that half of the subprime high risk borrowers will be unable to get a loan, thus depressing overall home sales. But that is not likely. Many of these households will seek mortgage loans from a revitalized FHA, from lenders making loans that meet Fannie Mae and Freddie Mac standards, and from other lenders offering fair and affordable mortgage options to subprime borrowers. Remember, many of these borrowers are low-income, minorities and first-time buyers – all important participants in the home buying marketplace. Tougher lending standards imposed by the market (i.e., Wall Street and banks) and the regulators are necessary, but we need to be mindful of overcorrection. Responsible lending practices are what the doctor orders, not practices that cause a credit crunch.

On balance, I expect about 10 to 25 percent of subprime households to be unable to secure a mortgage loan because of today's stricter lending standards. However, many of these

Confused about the subprime mortgage market issue? NAR has posted a comprehensive Market Overview written by David Lereah, NAR Senior Vice President and Chief Economist, on **REALTOR.org** to help separate fact from fiction. To access the article visit **www.realtor.org/government_affairs/market_overview_03_2007_subprime_lending.html**

The Subprime Mess (continued)

households will probably, over time, purchase a home when they have attained the financial capacity to do so (e.g., saving for a down payment, growing their income). So the long-term health of the housing market will probably stay in tact. In the near-term, I would expect home sales to fall by 100,000 to 250,000 annually during the next two years due to tighter underwriting practices, slowing the nation's housing recovery.

As for the over 8 million adjustable-rate loans (25 percent of which were subprime) originated during the past three years, First American Corelogic estimates that about 1.1 million of them totaling about $326 billion are likely to end up in foreclosure. A bit over $300 billion of subprime adjustable mortgage loans are due to re-set by October 1st of this year. Most lenders will attempt to work out problem loans by refinancing borrowers into other mortgages. A disproportionate share of these foreclosures will occur in high cost regions, like California. Certainly, a rise in foreclosures results in an upward blip in housing inventories, depressing home values. But the good news is that these foreclosures will occur in relatively healthy local markets that boast decent levels of economic activity and job creation, improving the prospects of selling the foreclosed properties in a reasonable amount of time. Foreclosures will create temporary inventory problems, but inventories will be eventually worked out.

Certainly, a rise in foreclosures results in an upward blip in housing inventories, depressing home values. But the good news is that these foreclosures will occur in relatively healthy local markets.

Today's subprime problems are most certainly going to spill over into the housing sector and the economy a number of ways. First, if lenders exercised poor underwriting in the subprime market, it is likely that these practices carried over into their Alt A and possibly even their prime lending markets as well, suggesting that delinquencies and foreclosures in these markets may reach higher than historical levels. Second, going forward, lenders that are tightening underwriting standards in the subprime market may be over-cautious and tighten standards in the prime market, keeping some households from purchasing with prime loans even though they are well able to afford them. Third, continual problems and media reports about subprime activity may reduce overall consumer confidence in the housing sector, bringing some home buyers to the sidelines. And fourth, an increase in foreclosures could raise the inventory of homes in a local market, soften prices and the demand for homebuying.

But from a broader perspective, today's subprime problems are occurring against a backdrop of cyclically low mortgage rates and a growing, healthy economy. Jobs and liquidity are plentiful in the marketplace, suggesting that the subprime problems may be manageable ones within our $10 trillion-plus economy.

THE FORECAST

by Lawrence Yun, *Senior Forecast Economist*

The subprime loan market is certainly making news. New Century, one of the industry's emerging stars in the subprime loan market during the housing market boom, is now essentially bankrupt. The delinquency rate on subprime loans soared to 14.3% (not seasonally adjusted) in the fourth quarter of 2006 and the first quarter figures are likely to be measurably higher still. Just two years ago, the subprime delinquency rate was at a cyclical low of 10%. While that still sounds high, it was a level expected by lenders who take on the risk of lending to borrowers with credit history problems. The foreclosure rate – which lags behind delinquency trends – will inevitably rise further from its already high of 4.5% for these risky loans. Wall Street, which had been eager to fund these loans at high interest rates to New Century and similar companies, has now begun to close the money tap.

Despite the bad news about increased delinquency and foreclosures in the subprime market, most subprime borrowers are making their mortgage payments on time.

So what will be the impact from the subprime market fallout? Consider, the subprime loans comprised about 10% of the overall mortgage market, and 20% of mortgage originations since 2005 (though there are divergent figures depending upon the source). The recent overall rise in default rates is primarily associated with subprime loans rather than with the predominant prime loans. The delinquency rate on prime loans was only 2.8% by comparison with the foreclosure rate running at 0.5%. Both delinquencies and foreclosures for prime loans have been steady with very little movement. Therefore, a 14.3% delinquency on 10% of the loan market means subprime problems are impacting 1.43% of all loans. Factor in the fact that one-third of all homeowners own their home free-and-clear, the subprime problems are associated with less than 1% of all homes. History says that less than half of these homes with delinquent mortgage payments ever move into actual foreclosure. So roughly speaking, 0.5% of all homes will at most run into eventual foreclosure from the recent meltdown in the subprime sector, that is, one of two hundred homes.

In addition, unlike past housing recessions of the early 1980s or early 1990s when the country was losing jobs, the current housing recession is associated with job gains – two million in the past 12 months. So there will likely be quick purchases of foreclosed homes that reach the market – very painful for those losing their homes. But that problem looks to be isolated without spreading broadly to the overall housing market.

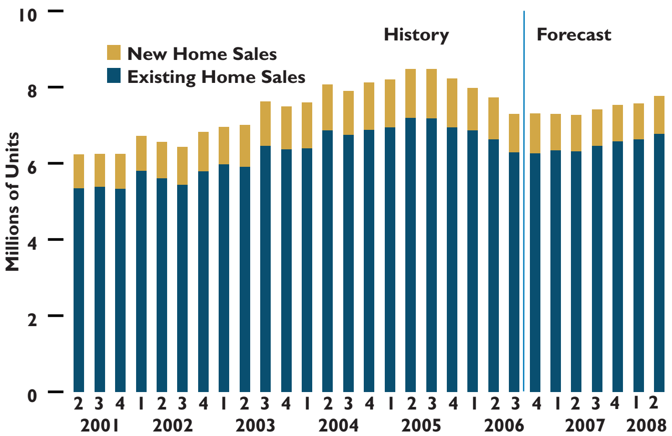
The recent subprime problems have dampened our price growth forecast for 2007 – from 1.9% increase as projected last month to 1.2% – a modest impact. We've adjusted the home sales figures as well: home sales are now forecast to be 6.42 million units in 2007 – primarily as a result of tightened credit standards for the subprime loans. Some analysts have predicted a fall in home sales by an additional 500,000 units because of the subprime collapse. This view assumes somehow that the whole of the subprime market disappears overnight. Despite the bad news about increased delinquency and foreclosures in the subprime market, most subprime borrowers *are making their mortgage payments on time*. Also more borrowers will turn to FHA or VA loans (if they qualify) that historically provide a homeownership opportunity for low-and-moderate income households. The subprime market implosion does not necessarily mean a sudden disappearance of the whole subprime market.

As for the regional impact, the top five states with the highest prevalence of subprime borrowing were California, Rhode Island, Michigan, Nevada, and Illinois. Those states with little exposure to subprime loans are North Dakota, South Dakota, Vermont, Alaska, and Montana.

Greed and fear! People act on them. The excessive greed of some people wanting easy high-interest bearing income led to some companies lending to shaky borrowers during the housing boom. All that has now come home to roost. The fear of a meltdown – massive cuts in home sales and huge rise in foreclosed homes along with significant fall in home prices – are now being predicted by some analysts. But keep a cool head. Crunch the numbers logically. Yes, there is an impact of the subprime market fallout, but it is a modest one.

Home Sales

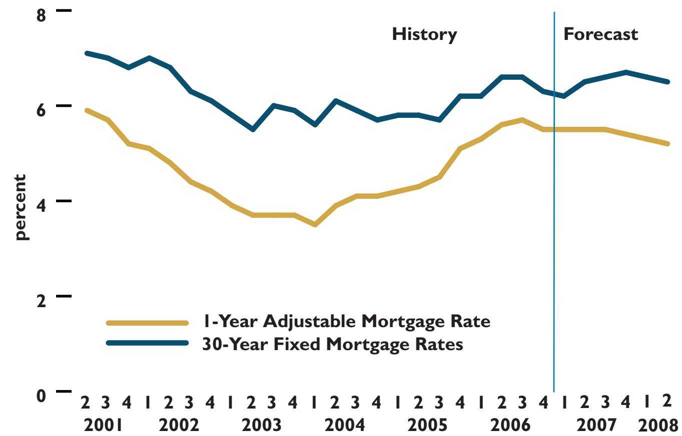
Sales activity starting to recover



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

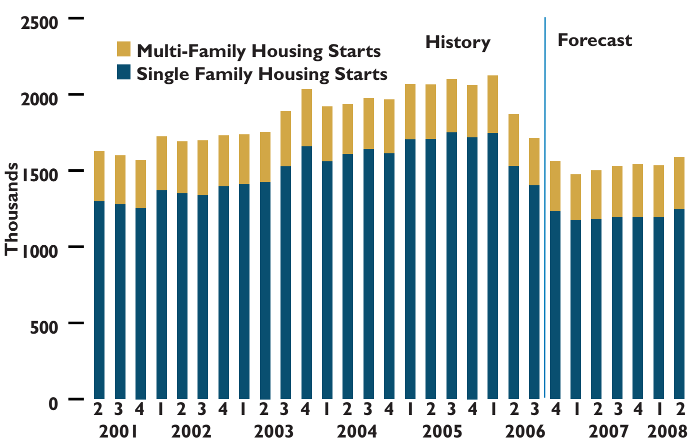
Fixed rates still attractive for homebuyers



Sources: Freddie Mac, NAR Forecast

Housing Starts

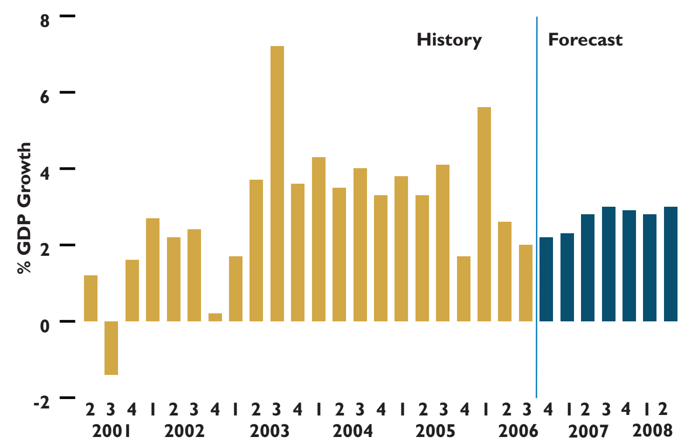
Builders waiting for demand to pick up



Sources: Bureau of the Census, NAR Forecast

Economic Growth

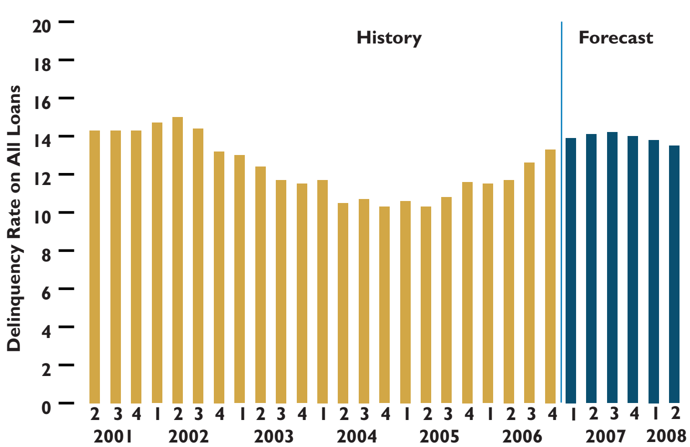
No major weather impact



Sources: Bureau of Economic Analysis, NAR Forecast

Subprime Mortgage Delinquency Rate

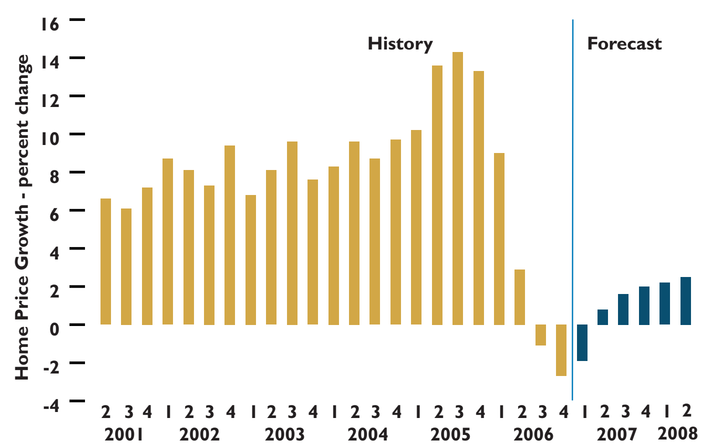
As economy improves, delinquencies should start edging downward



Sources: Mortgage Bankers Association, NAR Forecast

Home Price Growth

Starting to come back into positive and sustainable territory



Sources: NAR, NAR Forecast

U.S. ECONOMIC OUTLOOK
March 2007

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II	2005	2006	2007	2008
U.S. Economy														
Annual Growth Rate														
Real GDP	5.6	2.6	2.0	2.2	2.3	2.8	3.0	2.9	2.8	3.0	3.2	3.3	2.5	3.0
Nonfarm Payroll Employment	2.2	1.5	1.6	1.5	1.2	1.3	1.6	1.2	1.3	1.4	1.7	1.9	1.4	1.4
Consumer Prices	1.9	5.0	3.1	-2.1	2.9	3.2	2.4	2.8	2.8	2.8	3.4	3.2	2.1	2.8
Real Disposable Income	4.6	-1.5	3.2	5.3	4.2	0.9	3.4	2.9	3.5	3.0	1.2	2.6	3.1	3.0
Consumer Confidence	106	107	104	107	110	107	108	108	109	110	100	106	108	109
Percent Unemployment	4.7	4.7	4.7	4.5	4.6	4.7	4.7	4.7	4.7	4.7	5.1	4.6	4.7	4.7
Interest Rates, Percent														
Fed Funds Rate	4.5	4.9	5.3	5.2	5.3	5.3	5.3	5.3	5.0	4.8	3.2	5.0	5.3	4.9
3-Month T-Bill Rate	4.4	4.7	4.9	4.9	5.0	5.0	5.0	4.9	4.7	4.5	3.1	4.7	5.0	4.6
Prime Rate	7.4	7.9	8.3	8.2	8.3	8.3	8.3	8.3	8.0	7.8	6.2	8.0	8.3	7.9
Corporate Aaa Bond Yield	5.4	5.9	5.7	5.4	5.3	5.5	5.7	5.8	5.8	5.7	5.2	5.6	5.6	5.7
10-Year Government Bond	4.6	5.1	4.9	4.6	4.6	4.8	4.9	5.0	4.9	4.8	4.3	4.8	4.8	4.8
30-Year Government Bond	4.6	5.1	5.0	4.7	4.7	4.8	5.0	5.1	5.0	5.0	4.6	4.9	4.9	5.0
Mortgage Rates, percent														
30-Year Fixed Rate	6.2	6.6	6.6	6.3	6.2	6.5	6.6	6.7	6.6	6.5	5.9	6.4	6.5	6.5
1-Year Adjustable	5.3	5.6	5.7	5.5	5.5	5.5	5.5	5.4	5.3	5.2	4.5	5.5	5.5	5.2
Housing Indicators														
Thousands														
Existing Home Sales*	6,863	6,627	6,287	6,263	6,340	6,316	6,461	6,571	6,624	6,766	7,076	6478	6422	6,657
New Single-Family Sales	1,111	1,100	1,007	1,040	949	948	945	956	954	997	1,283	1060	950	981
Housing Starts	2,123	1,873	1,714	1,562	1,475	1,502	1,531	1,542	1,535	1,588	2,068	1802	1,501	1,563
Single-Family Units	1,747	1,530	1,401	1,235	1,172	1,179	1,196	1,194	1,191	1,245	1,716	1466	1,165	1,211
Multifamily Units	376	343	313	327	303	323	335	348	344	343	352	336	336	352
Residential Construction**	619	601	570	541	516	507	508	514	517	525	608	583	508	523
Percent Change -- Year Ago														
Existing Home Sales	-2.1	-7.2	-12.4	-10.1	-7.6	-4.7	2.8	4.9	4.5	7.1	4.4	-8.5	-0.9	3.7
New Single-Family Sales	-11.5	-14.3	-22.4	-18.8	-14.6	-13.8	-6.2	-8.1	0.5	5.1	6.7	-17.4	-10.4	3.3
Housing Starts	2.6	-9.3	-18.4	-24.2	-30.5	-19.8	-10.7	-1.3	4.0	5.7	5.8	-12.9	-16.7	4.1
Single-Family Units	2.6	-10.4	-19.8	-28.1	-32.9	-23.0	-14.6	-3.3	1.6	5.6	6.5	-14.6	-20.5	3.9
Multifamily Units	2.9	-3.8	-11.3	-4.4	-19.3	-5.8	6.9	6.5	13.3	6.1	2.1	-4.5	0.1	4.7
Residential Construction	6.1	-1.5	-8.1	-12.6	-16.5	-15.5	-10.9	-5.0	0.1	3.4	8.6	-4.2	-12.8	3.0
Median Home Prices														
Thousands of Dollars														
Existing Home Prices	218.7	226.7	225.0	219.3	214.5	228.5	228.6	223.7	219.2	234.2	219.6	221.9	224.5	231.4
New Home Prices	244.8	246.1	236.2	243.9	244.3	248.3	239.3	248.5	250.4	255.0	240.9	245.5	249.6	257.0
Percent Change -- Year Ago														
Existing Home Prices	9.5	3.0	-1.0	-2.7	-1.9	0.8	1.6	2.0	2.2	2.5	12.4	1.0	1.2	3.1
New Home Prices	6.5	6.9	-0.2	1.6	-0.2	0.9	1.3	1.9	2.5	2.7	9.0	1.9	1.7	3.0
Housing Affordability Index	109	103	103	109	115	110	109	111	116	112	113	106	111	115

*Quarterly figures are seasonally adjusted annual rates. / * Existing home sales of single-family homes and condo/coops; ** billion dollars / Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy. / Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.*

Predatory Lending: Risks and How to Avoid Them

By Lynn King, *Senior Policy Representative, Government Affairs* **and**
Jeff Lischer, *Manager, Financial Services, Regulatory and Industry Relations*

Abusive and predatory lending practices are rapidly becoming issues of concern for our nation's communities. Unfortunately, some lenders abuse their role and take advantage of vulnerable borrowers by charging extremely high interest rates and loan fees, using aggressive sales tactics to steer consumers into unnecessarily expensive loan products, and advertising very low "teaser" interest rates that steeply increase after the first few years of the loan. The consequences of abuses in the subprime market could be higher rates of delinquencies and foreclosures leading to increased vacancy rates which, in turn, can cause all homes in the neighborhood to lose value.

What is Predatory Lending

There is no single definition of predatory lending. The term covers a wide range of abusive practices. Indeed, since everyone's circumstances are different, some loan practices may be predatory for one borrower but not for another.

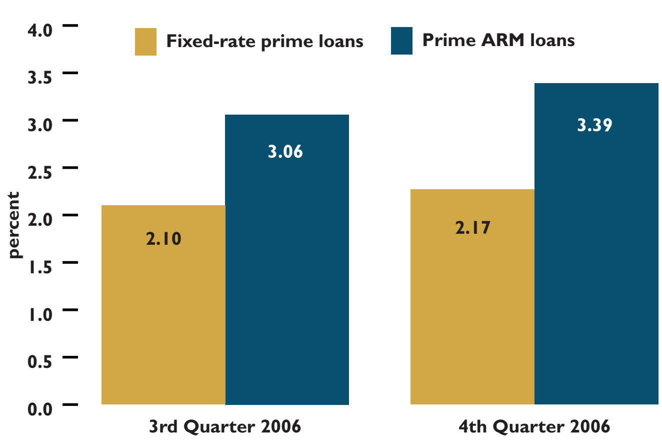
Nearly all predatory lending occurs in what is called the "subprime market," where loans are sold to households with less-than-ideal credit histories that can include short work history, high debt and a record of late payments on credit card or other debt. While subprime loans have played an important role in helping millions of Americans become homeowners, some lenders abuse their role and take unfair advantage of vulnerable borrowers. Predatory lenders often take advantage particularly of first-time home buyers and others who may be vulnerable to high-pressure sales tactics.

Problems Connected to Predatory Lending

Predatory lending practices range from the sales technique called "bait and switch" to exorbitant interest rates and fees. Here are some examples:

- *Loans that start "low" and go "high."* Adjustable rate loans are popular in today's housing market. But many of those ARMs that seem to be affordable may have steep cost increases over the life the loan.
- *High interest rates and fees*. Predatory lenders often charge extremely high interest rates and fees that are then added onto the total amount of the loan that the borrower must repay. Unfortunately, these lenders charge what they can get away with, not necessarily a fair amount based on the credit history of the borrower.
- *Broken promises or "bait and switch."* Sometimes home buyers are offered a new loan – or a loan to refinance an existing mortgage – that seems to meet all of their needs. But by the time the loan closes, these borrowers find that the interest rates and fees have changed, and may result in a loan that they cannot afford.
- *Loan "flipping."* Many homeowners are persuaded to refinance their existing mortgage (sometimes repeatedly) when there is no real benefit to them to do so. Even when a household receives cash from a refinance, those gains should be weighed against the cost of excessive fees and a higher loan amount.
- *Steering*. Predatory lenders often use aggressive sales tactics to steer buyers into unnecessarily expensive loan products. There are some households that receive subprime loans when, in fact, they could qualify for a much more affordable home loan.

Delinquency Rates*
Prime Fixed and Adjustable Rate Loans



Source: Mortgage Bankers Association
**seasonally adjusted*

The Warning Signs

There are several "red flags" that real estate professionals and their clients should look out for. Here are just a few:

Sounds too easy. "Guaranteed approval" or "no income verification" regardless of the borrower's current employment, credit history and assets. These claims indicate that the lender

*The brochure is available in print or pdf format. Visit **www.realtor.org/housopp.nsf/pages/SpecialtyMortgages** for details.

Predatory Lending (continued)

does not care about whether or not the borrower can afford to make the loan payments over the long haul.

Excessive fees. Higher lender and/or mortgage broker fees than are typical in the borrower's market. With competitive (non-predatory, non-subprime) loans, fees are negotiable, and it is common for home buyers to pay only one percent of the loan amount for prime loans. A typical predatory loan may cost five percent or more. These costs can be financed as part of the loan and consequently may be easily disguised or downplayed.

Future payment shock. High-risk adjustable-rate mortgages – where the monthly loan payment rises significantly after a short introductory period – are seldom appropriate for households who have a history of problems repaying loans.

Closing delays. The lender deliberately delays closing so that the commitment on a reasonably priced loan expires.

Impact on the Housing Market

Real estate professionals have a strong stake in preventing predatory lending because predatory lending erodes confidence in the nation's housing system. In a credit-driven economy, the legislative and regulatory response to lending abuses can go too far and inadvertently limit the availability of reasonable credit for prime as well as subprime borrowers. To the extent the response to predatory lending constrains the ability of the secondary mortgage market to provide liquidity for home finance, consumers will find it more difficult and expensive to buy a home. Citizens of communities, including real estate professionals, are harmed whenever predatory lending strips equity from homeowners, especially when the predatory lenders concentrate their activities on certain neighborhoods and create a downward cycle of economic deterioration.

NAR Efforts to Educate Consumers

The National Association of REALTORS® is very concerned that some borrowers do not understand the significant risks associated with a predatory loan and do not know how to avoid them. Last year, NAR, in partnership with the Center for Responsible Lending, issued a consumer education brochure entitled "How to Avoid Predatory Lending."* The brochure emphasizes how important it is for consumers to make sure they shop for the lowest-cost loan and ask questions, such as:

- What is my credit score? Can I have a copy of my credit report?
- What is the best interest rate today? Do I qualify?
- Is the loan's interest rate fixed or adjustable?
- What is the term (length) of the loan?
- What are the total loan fees?
- What is the total monthly payment? Does it include property taxes and insurance?

If not, how much will I need each month for taxes and insurance?

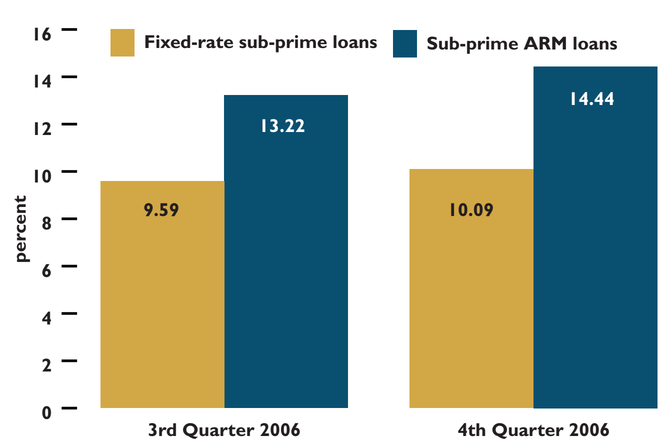
- Is there an application fee? If so, what is it, and how much is refundable if I don't qualify?
- Are there any prepayment penalties? If so, what are they and how long do they last?

Conclusion

Predatory lending can be a disaster not only for the borrower and his or her family, but for the community as well. Problematic loans are often made in concentrated areas and are more likely to result in foreclosures. High foreclosures of single-family homes are a serious threat to neighborhood stability and community well-being. Foreclosures can lead to high vacancy rates which, in turn, can devastate the strength and stability of communities.

REALTORS® help families achieve the dream of homeownership. The National Association of REALTORS® supports responsible lending and is working with legislators and regulators to develop increased consumer protections that ensure the "dream" our members help fulfill does not turn into a family's worst nightmare.

Delinquency Rates
Sub-prime Loans



Source: Mortgage Bankers Association
**seasonally adjusted*

Single-Women Home Buyers: A Market Worth Watching

by Paul Bishop and Harika "Anna" Barlett, *NAR Research*

In 2006, NAR Research surveyed recent home buyers about their experience in the home search process, the use of real estate professionals in purchasing a home, and the use of the Internet as a source of information about homes available for purchase. The results of the survey were published in NAR's ***2006 Profile of Home Buyers and Sellers***.

A significant share of home buyers are single women. Indeed, the percentage of single-women buyers has increased from 14 percent in 1995 to 22 percent in 2006. These home purchasers account for the second largest share of adult households who purchase homes. Below we look at results from the most recent home buyer survey that focus on single-women purchasers.

The Single-Female Population

According to the latest U.S. Census Bureau statistics, just over half – 51 percent – of the U.S. population are females over the age of 15. The Census Bureau also reports that:

- 9.4 percent are widows
- 11.5 percent are divorced
- 2.6 percent are separated (and describe themselves as single)
- 25.5 percent have never married

The largest share of women in the population is those that are married. But more than 25 percent are or have never been married. Not surprisingly, most of those who have never married are between the ages of 15 to 19 years. But women aged 20-34 years old account for the largest percentage of single females.*

Single Female Home Buyers

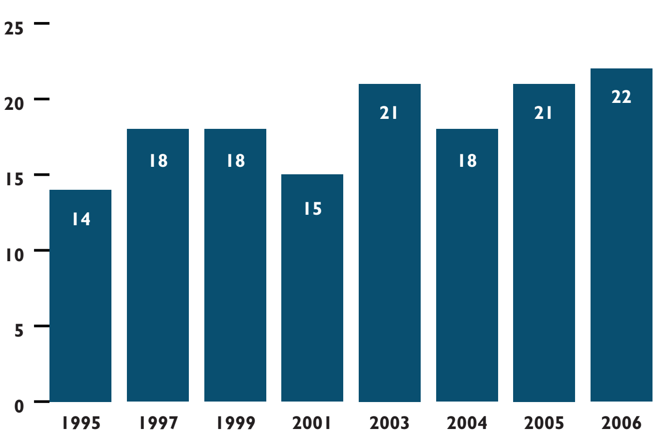
As mentioned above, 22 percent of home buyers in 2006 were single women. The median age of all home buyers was 41 compared to 43 for single-female buyers. Among single-female home buyers, 46 percent were first-time buyers, compared to 36 percent of all buyers.

The median household income for single-women home buyers was less than that for home buyers as a whole. Single-female home purchasers reported a median household income of $48,100 in 2005, compared to $71,800 for home buyers in general. This is not surprising since 68 percent of all home buyers are couples, many of whom probably have two incomes. On the other hand, single-female home buyers earned more than the median income for all households – $46,326 in 2005. They are also less likely to have children. Survey results show that 76 percent do not have children living at home, compared with 62 percent of all home buyers.

What They Buy

Single female buyers are more likely to purchase an apartment/condominium or a townhouse/rowhouse than are home buyers in general. Still, the majority of single women purchase a detached single-

Single Women Home Buyers
(as a percent of all home buyers)



Source: NAR Research
Note: Prior to 2003, the NAR survey of home buyers and sellers was conducted every two years.

Primary Reason for Purchasing a Home
(Percentage Distribution)

	All Buyers	Single Female Buyers
Desire to own a home of my own/ establish household	32 %	44 %
Desire for larger home	14	8
Job-related relocation or move	12	5
Change in family situation	9	13
Desire for a home in a better area	8	5
Desire to be closer to job, school, relatives or transit	7	8
Desire for smaller home	5	6
Retirement	4	4
Desire for vacation home/investment property	1	1
Purchased home for family member or relative	1	1
Other	6	6

Source: NAR Research

*Want more detailed information about the U.S. population? Visit the Census Bureau's web site at **www.census.gov**.

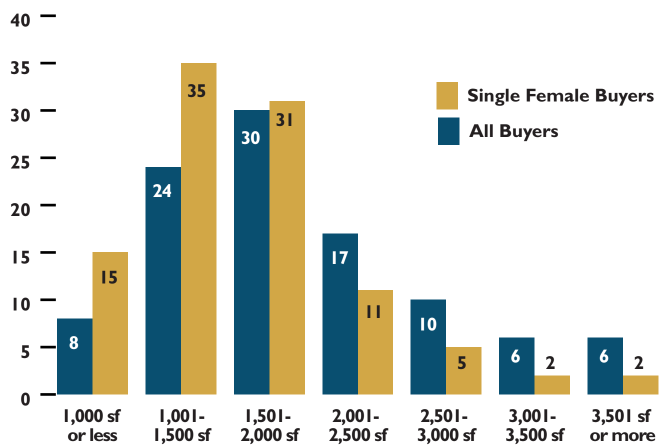
Single Women Home Buyers (continued)

Type of Home Purchased
(Percentage Distribution)

	All Buyers	Single Female Buyers
Detached single-family home	75 %	60 %
Townhouse/row house	9	14
Apartment/condo in building with 5 or more units	8	16
Duplex/apartment/condo in 2 to 4 unit building	3	5
Other	5	6

Source: NAR Research

Size of Home Purchased, in square feet (sf)
(Percentage Distribution)



Source: NAR Research
Median size of home purchased: 1,815sf (all buyers); 1,502sf (single female buyers)

family home. And while the majority of single women purchase a home in a suburb or subdivision, they are also more likely to purchase a home located in an urban or central city location than are home buyers as a whole. Single women tend to buy smaller homes.

Because their household income is less than home buyers in general, it is perhaps not surprising that single female home buyers purchase homes that cost less than those purchased by the general home buyer population. The median price paid by single women buyers was $169,370 in 2006 compared to $214,000 for all buyers.

Why They Buy

A majority of home buyers purchase a home because of their desire to own a home of their own or establish a household. The same is true for single-female buyers, but to an even larger degree. While nearly a third of all home buyers purchase a home for this reason, 44 percent of single women buy a home because they want to own a home of their own.

Compared to all home buyers, less than half of single-female buyers purchase a home due to a job-related location or move. But they are more likely to buy due to a change in family situation compared to home buyers in general. Single females are also more likely to have rented an apartment or house prior to their home purchase than are home buyers as a whole.

Use of the Internet

One fifth of home buyers who used the Internet in 2006 to search for a home to purchase were single females. And single-women were more likely to be Internet home-searchers than were single male buyers or unmarried household buyers. In fact, among single-female home buyers, the majority of them used the Internet to search for homes.

Using the Services of a Real Estate Professional

The majority of all home buyers take advantage of the knowledge and expertise of a real estate professional in their home purchase transaction. The same is true for single-female buyers. In 2006, 67 percent of single women home purchasers used a real estate agent when they bought a home.

What It Means for Real Estate Professionals

Real estate professionals know their own housing markets better than anyone. And the more they know about who is buying homes, what potential buyers want to purchase, and why those buyers want to be a homeowner, the better they can develop marketing plans and provide services to their clients.

Single women are likely to continue to be a significant segment of home buyers. By using this information cited above – as well as other information contained in the ***2006 NAR Profile of Home Buyers and Sellers***** – real estate professionals will be even better able to meet the needs of single-women home buyers.

The ***2006 NAR Profile of Home Buyers and Sellers* is available for purchase. To order, call 1-800-874-6500. Ask for item #186-45-0506. Price for members is $50; for nonmembers $125. Or visit, **www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument**.

Links to Statistical Data Series

To view the latest housing statistics from NAR, click on the links below.

Existing Home Sales – Monthly series

- **January existing home sales and median sales prices** – single-family and condominiums/co-ops
- **Single-family home sales and median sales prices**
- **Condominium/co-op sales and median sales prices**
- The latest EHS statistics in spreadsheet format available **here**

Existing Home Sales and Metropolitan Area Median Home Sales Prices – 4th Quarter 2006

- 4th Quarter 2006 **existing home sales by state**
- Existing home sales by state in **spreadsheet format**
- 4th Quarter 2006 **Median Home Prices by Metropolitan Area**
  - **4th Quarter Single-family median home prices**
  - 4th Quarter Single-family median home prices in **spreadsheet format**
  - **4th Quarter Condominium/Co-op median sales price**
  - 4th Quarter Condominium/Co-op median sales price in **spreadsheet format**

NAR's Pending Home Sales Index

- **January pending home sales index**
- The latest pending home sales index in spreadsheet format available **here**

NAR's Housing Affordability Index

- **January HAI Index**
- January Housing Affordability Index in spreadsheet format available **here**
- Quarterly Housing Affordability Series
  - **4th Quarter 2006 Affordability Index**
  - 4th Quarter 2006 Affordability Index in spreadsheet format available **here**
  - **First-time homebuyer Affordability Index**, 4th Quarter 2006
  - First-time homebuyer Affordability Index in spreadsheet format available **here**

Click **here** for more details about NAR's existing home sales, pending home sales, and housing affordability index series, including methodology, links to the latest news releases, statistical release schedule, and how to access historical information.

Visit NAR Research's Housing Statistics Home Page Today!

NAR's housing data is the gold standard for measuring changes in the marketplace. For more than 50 years, NAR Research has been collecting detailed housing data – data so timely and accurate it is used by a host of public, private and government organizations – including the Federal Reserve. NAR is your source for:

- Existing-home sales and median sales prices – NAR's Existing-Home Sales Series is the premier measurement of the residential real estate market. On or about the 25th of each month, NAR releases statistics on sales and prices of existing single-family homes for the nation and the four regions.
- Quarterly statistics on existing-home sales by state and median sales prices by metropolitan area – these figures give you a more focused look at what's happening in each state and in more than 150 cities and surrounding areas
- Pending home sales – the newest "leading indicator" for the housing market, NAR's pending home sales index looks at contracts that have been signed, but not yet closed, each month.
- Housing affordability index – NAR's housing affordability index is issued on a monthly and quarterly basis. In addition, each quarter the Association releases its First-time Home Buyer Affordability index.

The housing data NAR collects and releases monthly, quarterly and annually is an invaluable resource that can contribute to *your* business success.

Visit the NAR Research website for more data at
www.realtor.org/research.nsf/pages/ehspage

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