



First American CoreLogic

A SIMULATION:
**MEASURING THE EFFECT OF HOUSING STIMULUS
PROGRAMS ON FUTURE HOUSE PRICES**



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Summary

- > During the first thirteen months of the Federal Housing Stimulus programs, home sales and home prices stabilized.
- > It is likely that the collective set of federal programs, including the home buyer tax credit, Federal Reserve MBS purchases, and Federal foreclosure prevention programs (HAMP, HARP, HAFA), contributed to the housing market stabilization.
- > Under a simulation scenario of extended Federal support, home prices are expected to *increase* year-over-year by more than 4 percent in February 2011.
- > Under a simulation scenario of Federal support ending in April 2010, home prices are expected to *decline* by more than 4 percent year-over-year in February 2011.

Introduction

In late 2008 and throughout 2009, the Federal government undertook a set of programs intended to break the downward trend of prices in the housing market, prevent further increases in foreclosures, and contain negative equity. The programs included a Federal Reserve MBS purchase program that helped keep mortgage interest rates low, and the mortgage modification, refinance, and affordable foreclosure alternative programs (HAMP, HARP, and HAFA) and a Federal homebuyer tax credit. These government-led programs helped contain the supply of distressed properties entering the visible inventory of homes for sale, and stimulated housing demand. The decline in home sales that began in late-2005 continued until the spring of 2009 when the federal stimulus programs began to have positive influence. From the end of 2005 to the end of 2008 home sales fell by 45 percent¹. In 2008 alone, home sales fell by 22 percent. However, once federal stimulus programs started to take effect home sales trends stabilized. Most notably the first-time homebuyer tax credit influenced sales activity throughout the summer and fall of 2009, prompting an extension and expansion of the program through April 2010. While the exact influence of the individual programs' effects on the housing market cannot be confirmed, a proportion of the increase in sales is almost certainly due to the collective set of federal housing stimulus programs – as witnessed by a large year-over-year increase in home sales volumes in November 2009 before the tax credit was extended.²

The result of stronger sales and reduced inventory was a significant improvement in home price trends. Month-over-month home prices increased for the first time since 2006. Between March and August 2009 home prices increased by 7 percent. While this increase in price levels may have been aided by the traditionally stronger spring and summer buying seasons, federal stimulus in the housing sector most likely increased current demand at the expense of future demand with low interest rates and the tax credit, while also attempting to restrict the supply of distressed assets entering the supply side of the market. This research brief simulates two scenarios of continued federal housing stimulus and stimulus ending in April 2010.

Methodology

¹ The home sales data was extracted from First American CoreLogic's public record property transactions database that covers over 2,200 counties in the US. These sales cover about 85% of all sales transactions.

² The original tax credit ran from January 1, 2009 to December 1, 2009 and was only offered to first-time buyers. In November of 2009, as the credit was expiring, the credit was extended to April 30, 2010 and expanded to include repeat buyers as long as they met certain residency requirements.

The data used for this study is the First American CoreLogic Home Price Index (HPI) and the HPI forecast³. The First American CoreLogic HPI is a repeat-sales home price index, and the forecast is a regression-based model dependent upon the HPI and forecasts of specific housing and economic exogenous factors that influence residential home price trends. Geographically specific forecasts are dependent on the broader geographic markets they are within, enforcing a genealogical relationship among geographic levels of the forecast. In theory, the Federal housing stimulus programs impact exogenous housing market factors such as the inventory of homes for sale, though government programs, such as the tax credit, are not directly entered into the HPI forecast model. Therefore, the baseline forecast model indirectly captures federal stimulus effects but doesn't explicitly control for them. To specifically simulate the two federal housing stimulus scenarios the model was re-estimated with fixed-effect and slope-effect dummy variables, with the federal housing stimulus effects "turned on" from February 2009 to either April 2010 in the scenario with the tax credit expiring, or until February 2011 (the duration of the forecast) for the scenario with continued federal support in the form of the tax credit and foreclosure prevention programs.

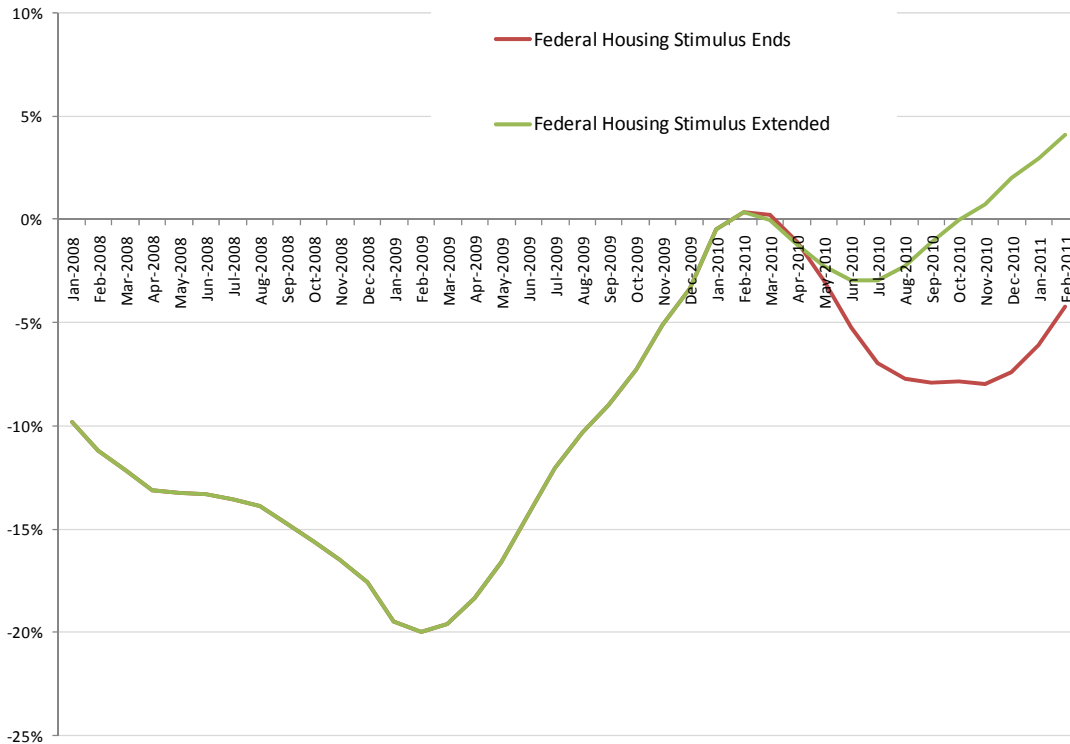
Results

All of the federal housing stimulus effects are significant in the scenario simulations. The fixed effect indicates that the home prices are increased by federal stimulus all else held equal, and the trend effect indicates that the positive influence has declined over time. Figure 1 shows the results of the two scenarios for the national level single-family combined HPI. The scenario with federal stimulus in the form of the tax credit expiring in April 2010 (as it is expected to do), shows a forecasted year-over-year decline of 4.2 percent in February 2011. If, alternatively, the tax credit is again extended (continuing federal stimulus of the housing market), the one-year forecast shows a fairly strong positive increase in the HPI of 4.1 percent.

These results are consistent with our expectation that federal housing stimulus has had a meaningful effect on home sales and prices, but that effect has exhibited diminishing returns as the time since implementation has progressed. This expectation is further confirmed by the forecast going forward from April 2010. While the extension of the tax credit results in a more optimistic forecast of home price trends, it is at a smaller magnitude than the actual positive effect observed immediately after the tax credit's enactment. Absent any significant changes in the underlying fundamentals of home prices (incomes, rents, employment, etc.), the results indicate that most of the positive effects of fiscal stimulus (the tax credit in particular) have already been realized, and the majority of buyers whose behavior was influenced by these incentives have already taken advantage of the opportunity to purchase a home.

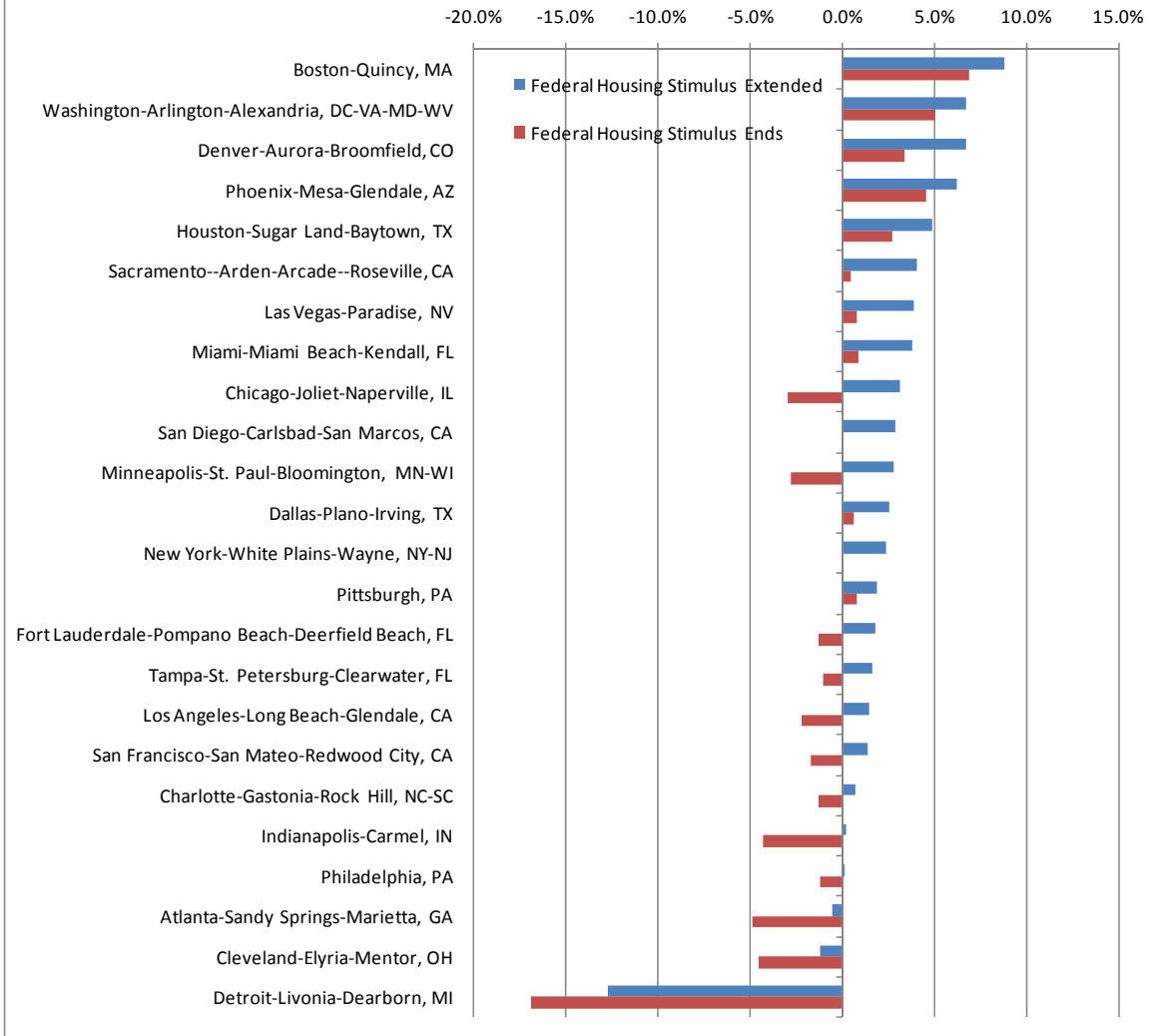
³ The First American CoreLogic LoanPerformance HPI incorporates more than 30 years worth of repeat sales transactions, representing more than 55 million observations sourced from First American CoreLogic's industry-leading property information and its LoanPerformance securities and servicing databases. The HPI provides a multi-tier market evaluation based on price, time between sales, property type, loan type (conforming vs. nonconforming), and distressed sales. The HPI is a repeat-sales index that tracks increases and decreases in sales prices for the same homes over time, which provides a more accurate "constant-quality" view of pricing trends than basing analysis on all home sales. The HPI provides the most comprehensive set of monthly home price indices and median sales prices available covering 6,070 ZIP codes (58 percent of total U.S. population), 519 Core Based Statistical Areas (CBSA, 85 percent of total U.S. population) and 898 counties (81 percent of total U.S. population) located in all 50 states and the District of Columbia. The HPI forecast is provided monthly, and is computed for four of the HPI tiers for the same geography levels as the HPI.

**Figure 1: Year-Year change in Single-Family Combined HPI
Two Scenarios**



At the Core Based Statistical Area (CBSA) or metropolitan level, the trends are similar to the U.S. forecast but with different amplitudes. The scenario of extending the federal stimulus is almost always more optimistic than the scenario of federal stimulus expiring, but often with significantly different signs and magnitudes. Typically, the largest impacts of federal stimulus occurred in the Midwest, with Chicago exhibiting a 6.1 percentage point swing in price forecasts between the two scenarios, the largest difference among a set of large CBSAs examined for the analysis. Other Midwestern cities with large movements in prices due to federal stimulus include Minneapolis and Detroit. At the other end of the spectrum were large Northeastern or Mid-Atlantic cities such as Pittsburgh, Philadelphia and Washington DC which exhibited very small differences between scenarios. Figure 2 shows the 12-month forecasted year-over-year growth under the two scenarios.

Figure 2: Projected Home Prices in Single-Family Combined HPI Through February 2011



Conclusion

The extent and magnitude of recent federal policy intervention in the national housing market has been unprecedented. The analysis indicates that these policies have had a meaningful and positive effect on home sales and prices. Much of this effect has been attributable to the federal homebuyer tax credit. However, the empirical results also indicate that the majority of this effect has already been realized, and any further extension, while still positive, would exhibit diminishing returns. While a reduction in the level of federal housing stimulus is projected to provoke an increase in the level of price deflation, this deflation is modest compared to what has occurred in recent years. These results are consistent with the notion that these policy interventions have helped to stabilize and support the fragile housing market, but have done so by restricting supply and shifting home sales that would have occurred after the market’s eventual stabilization from the future into the present.

About First American CoreLogic

First American CoreLogic, a member of The First American Corp. (NYSE:FAF) family of companies, is the largest provider of real estate, property and ownership data and advanced analytics for information on foreclosures, delinquencies, median home prices, home price indices, home valuations, sales activity and mortgage loan originations. This data represents 99.7 percent of the United States population, 145 million parcels (97 percent of all properties), 98.5 percent of U.S. ZIP codes, 3,085 counties located in all 50 states and the District of Columbia, more than 50 million active first lien and home equity mortgages, and 96 percent of non-agency mortgage securities. First American CoreLogic products and services enable customers to better manage credit and mortgage risk, protect against fraud, acquire and retain customers, mitigate loss, decrease mortgage transaction cycle time, more accurately value properties and determine real estate trends and market performance. More information about First American CoreLogic can be found at www.facorelogic.com.

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