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HOUSINGNEWSREPORT

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Five Economists Forecast the 2015 Housing Market

By Housing News Report Staff

As we ring in a New Year, the Housing News Report asked five prominent economists to forecast what 2015 will bring for the U.S. housing market after a 2014 that was a bit of a reality check in the housing recovery following two strong bounce-back years in 2012 and 2013.

Overall, the economists we interviewed were cautiously optimistic about 2015 when it comes to home prices, home sales, interest rates and the impact of loosening lending standards that have recently been introduced by government agencies. All of them see a return of more traditional, owner-occupant buyers

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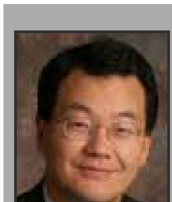
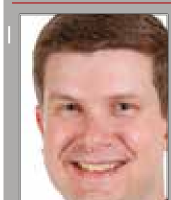
QUICK TAKES



Lawrence Yun

Chief Economist and SVP of Research NAR

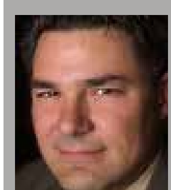
More buyers returning to market from improved job market conditions and a steady flow of buyers who went into the "penalty box" after a distressed property sale.



Jonathan Smoke

Chief Economist realtor.com

The new 3 percent down payment products coming from Fannie Mae and Freddie Mac should have a positive impact on the market as they enable more first-time buyers who have good credit, but limited



Christopher Thornberg

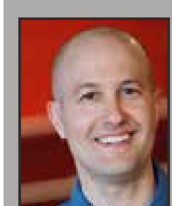
Principal Beacon Economics

We expect sales and price appreciation to pick up steam this year. Existing home sales should rise over 5 million and prices will accelerate some — probably close to double digits by the end of next year.

Mark Zandi

Chief Economist Moody's Analytics

New and existing home sales are expected to increase by as much as 20 percent in 2015. Key to this optimism is continued gains in the job market. The market should be tight enough that households will finally enjoy real wage gains.



Jed Kolko

Chief Economist Trulia

The strongest source of housing demand will be young people getting jobs and forming households. But they'll be moving into rentals and saving for a down payment rather than buying homes right away.

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for the year, but not all agree which demographic those buyers will come from — millennials or older generations who either delayed a home purchase because of the housing bubble or are boomerang buyers coming back from a failed attempt at homeownership during the housing bubble.

Here's what they are forecasting for 2015:

In hindsight, how did 2014 match up with your forecast for the year?

Yun: Home price gains were about as expected. But both housing starts and home sales came under our expectations despite amazingly and surprisingly low mortgage rates. The tight credit for both construction loans and for consumer mortgage loans continues to be obstacles to faster recovery.

Thornberg: We had anticipated that the housing market recovery would slow some as investors began to back off some from their heavy pace of purchases that peaked in 2013 — largely because the pace of foreclosures have fallen so much. The arbitrage between buying and renting is much less now. But we had anticipated that growth in retail (owner occupier) demand would pick up the slack. In fact that portion of the market remains weak, and there was more of a slowdown than anticipated in terms of sales and prices. The good news is retail demand has picked up some, and the market is clearly ending 2014 on a strong note — if not as strong as we had originally anticipated.

Zandi: The economy's performance stuck broadly to script in 2014, but the housing recovery fell short. GDP and employment growth improved throughout the year as fiscal austerity faded. Housing's contribution to growth was disappointing, particularly as single family homebuilding did not increase as hoped for in 2014. Higher mortgage rates, particularly at the start of the year, and tight mortgage credit weighed on single family housing demand.

Kolko: The housing market in 2014 turned out as we

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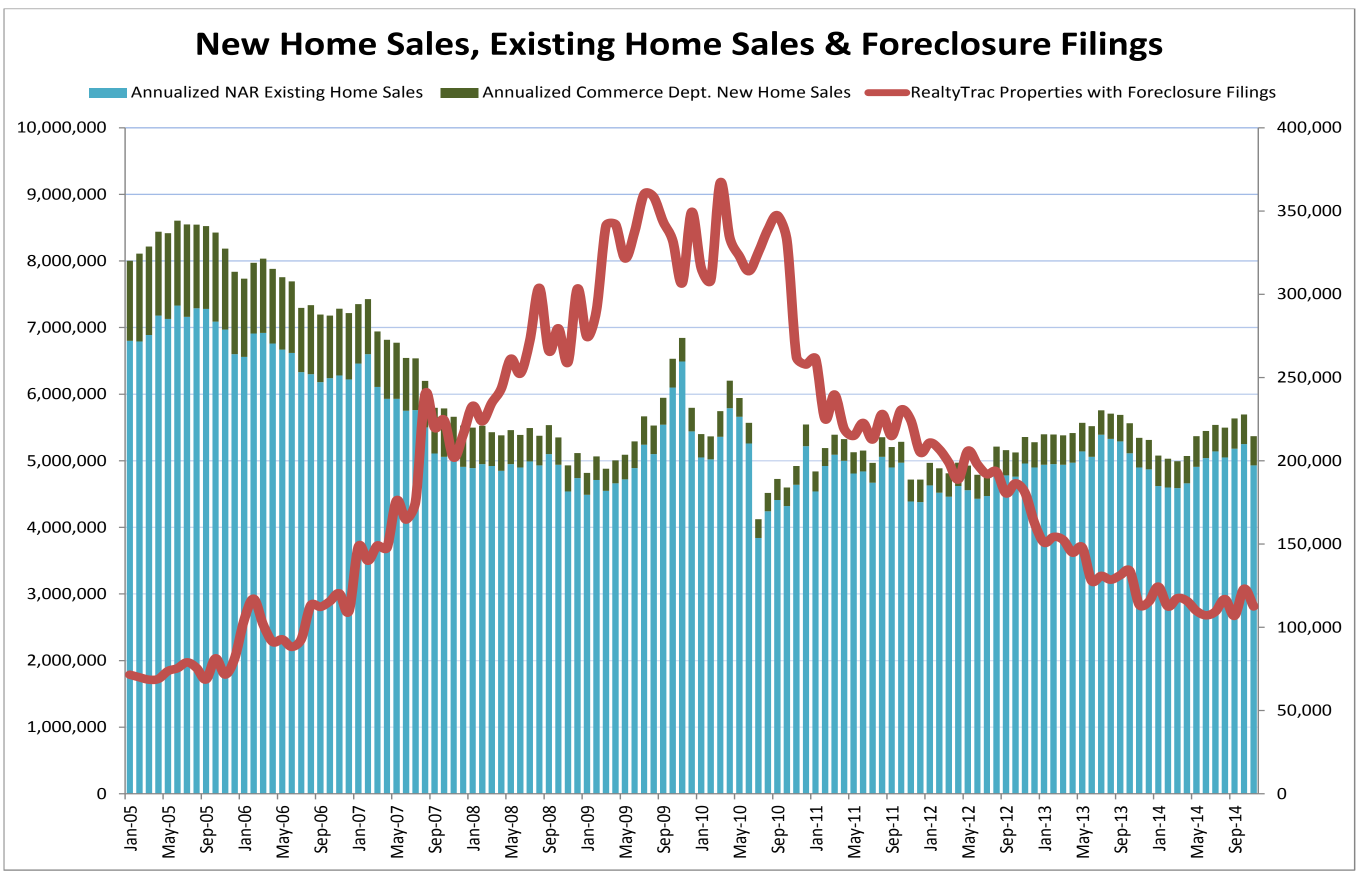

SOURCES: Census Bureau, National Association of Realtors, RealtyTrac expected in many ways. Housing affordability has declined, thanks to home prices continuing to rise faster than incomes. Markets that were hurt badly in the bust and then rebounded in 2012 and 2013 saw sharp price slowdowns in 2014, while other markets have seen steadily rising prices. First-time buyers did not lift the market, and investor activity declined — which is what we meant by calling 2014 "the year of the repeat home buyer." And the apartment market has been on fire. Our predictions for 2014 are here: http://www.trulia.com/trends/2013/12/housing-predictions-2014/.

Smoke: Realtor.com issued its first housing forecast in December focusing on the 2015 market. In my personal forecasts prior to joining to the realtor.com team, I had expected strong labor growth and positive but lower home price appreciation that were in line with what happened in 2014. I was off on expecting more growth in single-family new construction and in the assumption that mortgage rates would increase moderately.

What, if anything, surprised you about the direction the economy and economic policy headed during the year?

Yun: The economy (GDP) looks to grow around 2.5 percent, which is not bad and not good. Good that we are not stalling and creating jobs, but bad in terms of nine-straight years of sub-par GDP expansion of less than historical average growth of 3 percent.

Thornberg: We had been bullish on 2014 in general and had forecasted a 3 percent growth year. Needless to say the first quarter with its negative growth rate surprised us. But the forces that created this contraction were transitory, and the economy has roared back since. We think — that all said and done — the economy will end up very close to our original prediction.

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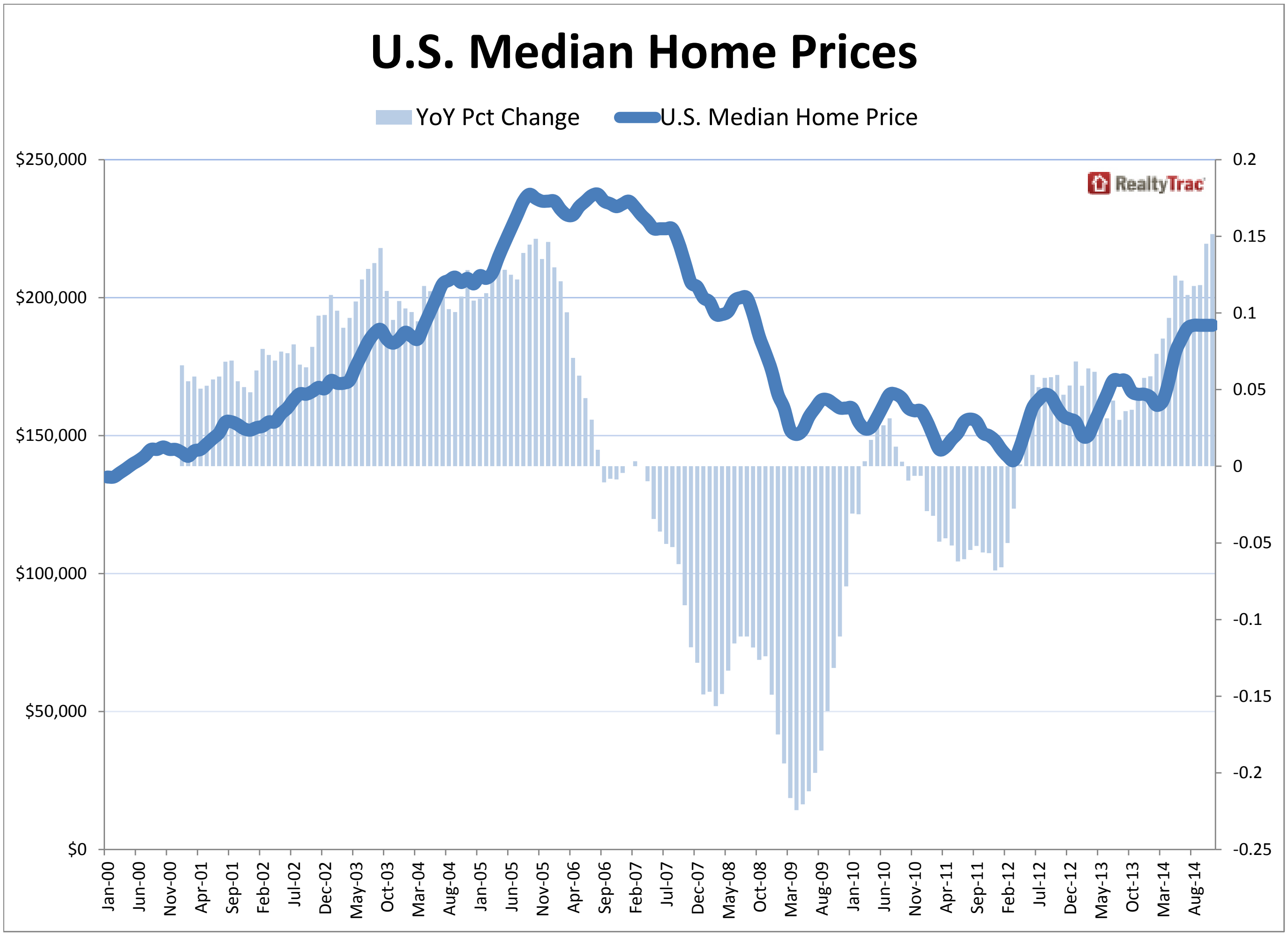

However, this is not true for the rest of the world. It's impossible to foresee the issues out there, but the ongoing issues in Europe and the collapse in commodity prices at the end of the year took us by surprise. There are good and bad points to these trends. Exports will be less of a source for potential growth, but at the same time American's are enjoying low gas prices and interest rates. In the end, we don't think the external situation will push the U.S. off its current growth path.

Zandi: Most surprising was how quickly unemployment and underemployment fell in 2014. Job growth has been strong, and combined with lackluster labor force growth, slack in the job market has been quickly absorbed. It was also a bit of a surprise how gracefully financial markets and the economy digested the end of the Fed's quantitative easing. Long-term interest rates, including fixed mortgage rates ended the year much lower than they began the year.

Kolko: The big surprise was the drop in mortgage rates. We (and just about everyone else) expected them to rise as the economy strengthened and the Fed tapered. Another surprise is that early indicators suggest household formation remained low in 2014, though various approaches used to measure household formation are notoriously inconsistent.

Smoke: The biggest economic surprise of 2014 was the decline in interest rates despite the strengthening of the U.S. economy. Global economic weakness and deflationary pressures brought on by the decline in the price of oil provided the context for the Federal Reserve to postpone an increase in its target rate. This global weakness gave consumers one more shot at the low rates throughout the fall, but mortgage originations were essentially flat over last year.

What will be the most important housing market trend(s) in 2015 and why?

Yun: Some easing of underwriting standards. Doubtful

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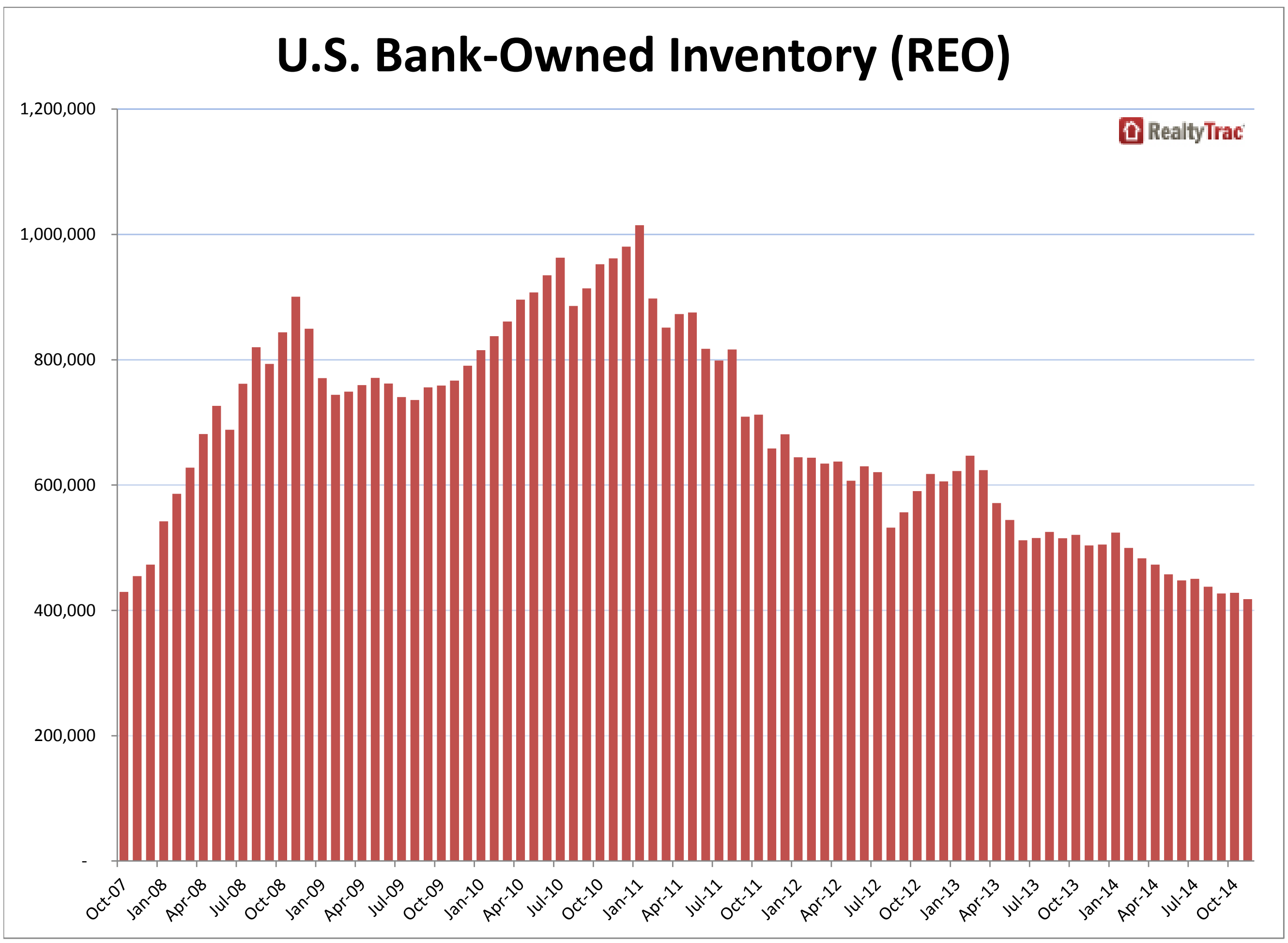

that lending will get back to normal, but some easing will provide a boost to sales by 5 to 10 percent.

Thornberg: We see the retail buyers coming back to the market in a big way this year. Better job numbers and rising wages have increased the confidence of potential buyers. Credit is starting to loosen, and the housing market now has $5.5 trillion more in equity today than it did three years ago — more money to roll into the new purchase. We also expect that first time buyers will start to come back as well, and homeownership rates will start to rise. But it won't be driven by millennials. Rather ownership will start to rise across all age groups. Another trend is that traditional patterns of migration should start again, as people have more confidence in their ability to move and find new work. Expect more population movement south and west.

Zandi: Most importantly, the housing recovery should come back to life in 2015. A better job market, lower mortgage rates and easier mortgage lending standards should support a pick-up in housing activity. The multifamily market will continue to be strong as more millennials finally leave their parents' home and start a new household.

Kolko: Apartment demand will continue to be strong as young adults with jobs move out of their parents' homes. But the boom in apartment construction in 2014 means more new supply coming onto the market in 2015, which could slow rent increases. On the buying side, affordability is likely to worsen as prices outpace incomes and mortgage rates rise, even though home prices should rise less in 2015 than in 2014.

Smoke: Realtor.com anticipates the most important trend in 2015 will be a substantial change in what has been missing in the housing market recovery thus far: the first-time homebuyer. In 2015, we should see first-time buyer market share return to more normal levels due to increased demand from millennials resulting from demographic and economic factors. On the demographic

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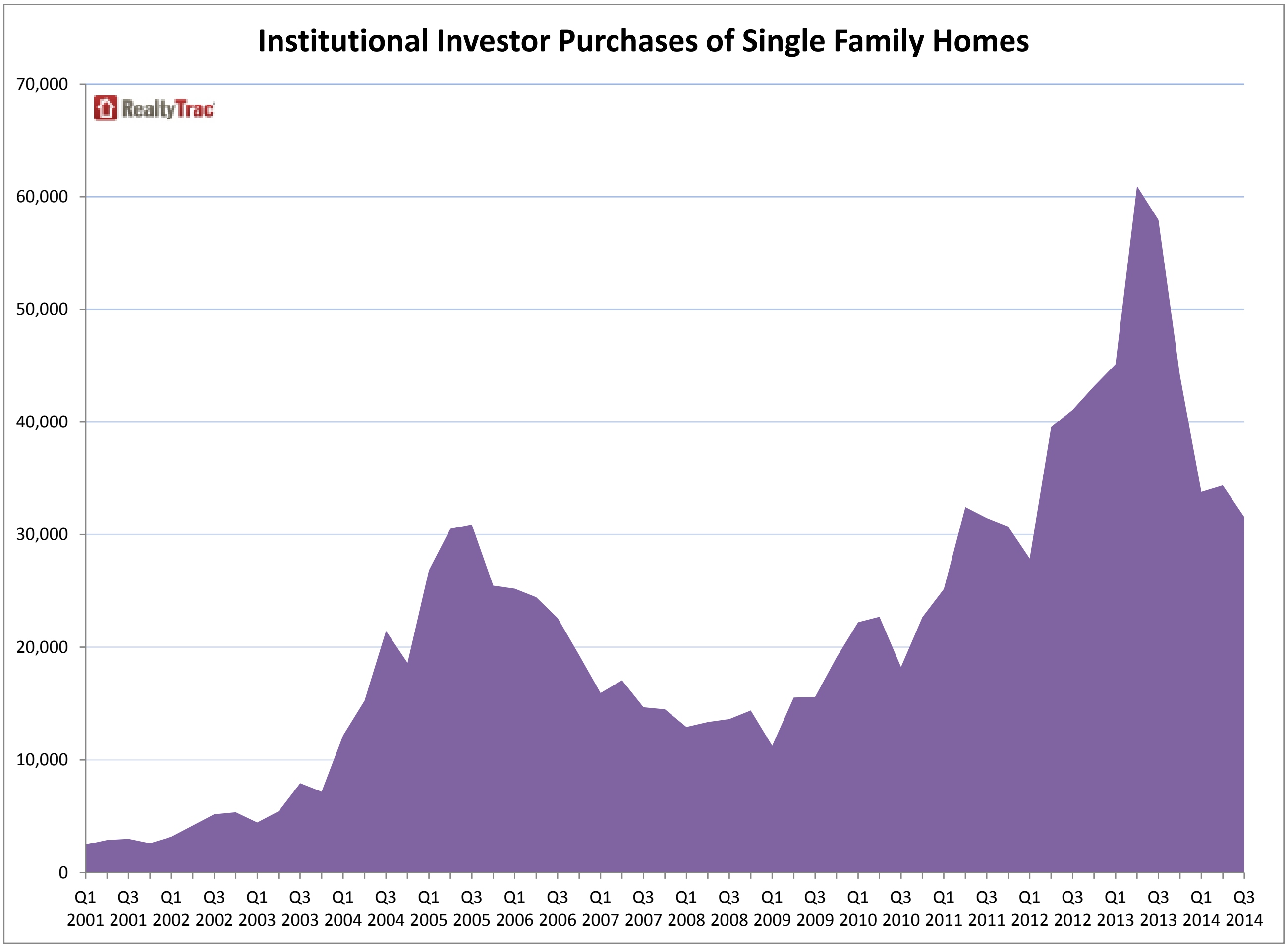

side, the largest generation ever is reaching a critical tipping point in the number of 25 to 34 year olds, the historically key age range for buying a first home. On the economic side, job growth continues to favor the young, so opportunities are improving for this buyer segment just as life events are driving more interest in home ownership.

Homebuilding should finally see more growth in 2015 with at least 20 percent growth in single-family starts. Builders focusing on more affordable entry-level product will enable some growth. However, lot, labor and building material constraints will limit how much builders can deliver. The first-time market is critical to seeing more recovery in the volume of new construction.

As the dust settles on 2015, we should also be able to write the final chapter on the aftermath of the financial and housing crisis with its abnormal levels of distressed property activity and investor purchases.

What is your outlook for 2015 in terms of home prices — both existing and new?

Yun: Existing home sales to rise by 7 percent (5 percent to 10 percent) and new home sales zooming by 40 percent (from still very low activity).

Thornberg: We expect sales and price appreciation to pick up steam this year. Single family permits as ending the year in the 650k (SAAR) range. We expect them to increase to 750k by the end for 2015.

Zandi: House price growth in 2015 should be in the low single digits, for both existing and new homes. Prices are recovered in most parts of the country, and are consistent with household incomes and rents. Homebuilders also need to worry about affordability given the big increases in new house prices in recent years.

Kolko: Prices gains will continue to slow down, especially in markets where investor buying and a post-crash rebound had been fueling price gains. But markets with strong fundamentals of job growth and low vacancy rates should see price gains continue. Overall, the recovery is shifting from one led by the rebound effect to one that depends on fundamentals.

Smoke: We are forecasting median existing home prices to rise 4.1 percent and median new home prices to rise 5 percent. Prices should be firm as both new and existing inventories are tight and will not be able to grow faster than demand. New home price appreciation will slow dramatically from what we've seen in recent years as a result of more affordable products being created to

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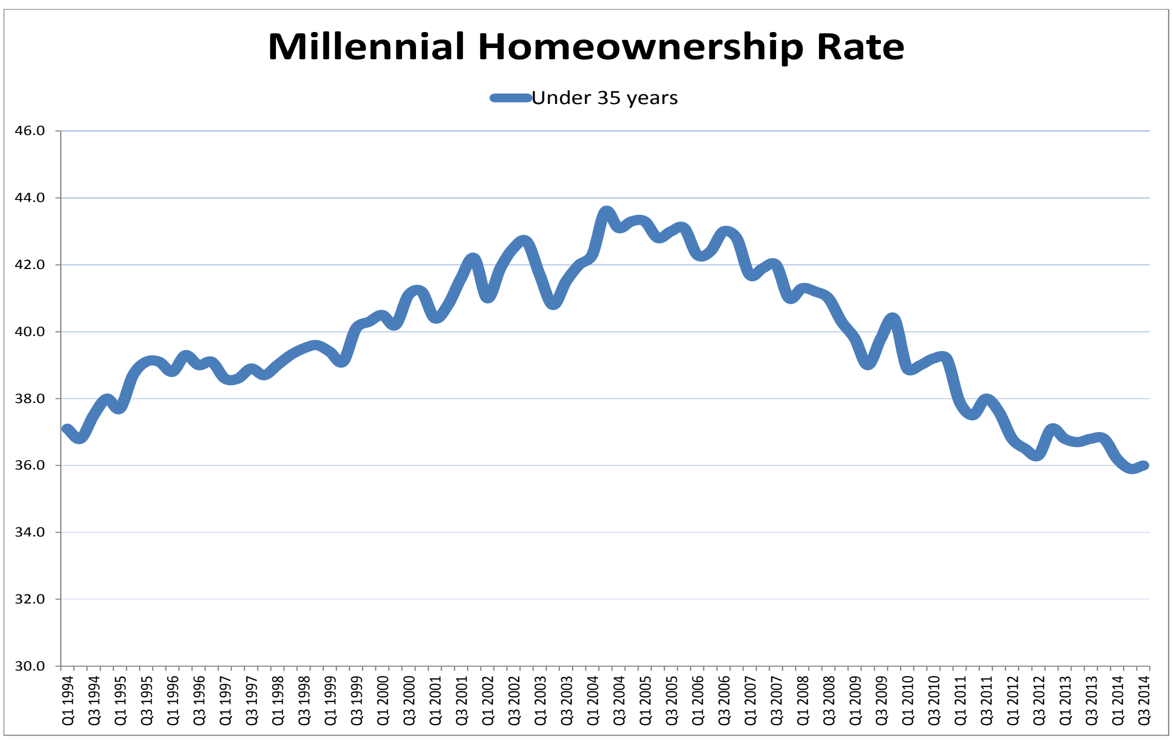

SOURCE: Census Bureau

address the return of the first-time buyer.

What is your outlook for 2015 in terms of home sales — both existing and new?

Yun: More buyers returning to market from improved job market conditions and a steady flow of buyers who went into the "penalty box" after a distressed property sale. But its been nearly decade since the start of the bust and many distressed sellers have already served their time and could qualify for a mortgage under Fannie/Freddie and FHA rules.

Thornberg: Similarly existing home sales should rise over 5 million and prices will accelerate some — probably close to double digits by the end of next year.

Zandi: New and existing home sales are expected to increase by as much as 20 percent in 2015. Key to this optimism is continued gains in the job market. The market should be tight enough that households will finally enjoy real wage gains. The wage gains will buoy housing affordability in confidence, both essential ingredients for stronger housing demand.

Kolko: Existing home sales should get a boost from more owners trying to sell: in Trulia's latest consumer survey, Americans said 2015 would be a better year to sell than 2014 was. New home sales, however, could disappoint. The strongest source of housing demand will be young people getting jobs and forming households. But they'll be moving into rentals and saving for a down payment rather than buying homes right away. Plus, the vacancy rate for single-family homes is still near its recession high, which discourages new construction. Buyer demand for single-family homes simply hasn't recovered enough to support near-normal levels of single-family starts or new home sales.

Smoke: We are forecasting strong growth in home sales in 2015 with 8 percent growth in existing home sales and 25 percent growth in new home sales. This strong level of growth will be similar to the bounce the market experienced in 2012, but this time the first-time buyer rather than investors will drive the growth in demand.

Where are interest rates headed in 2015?

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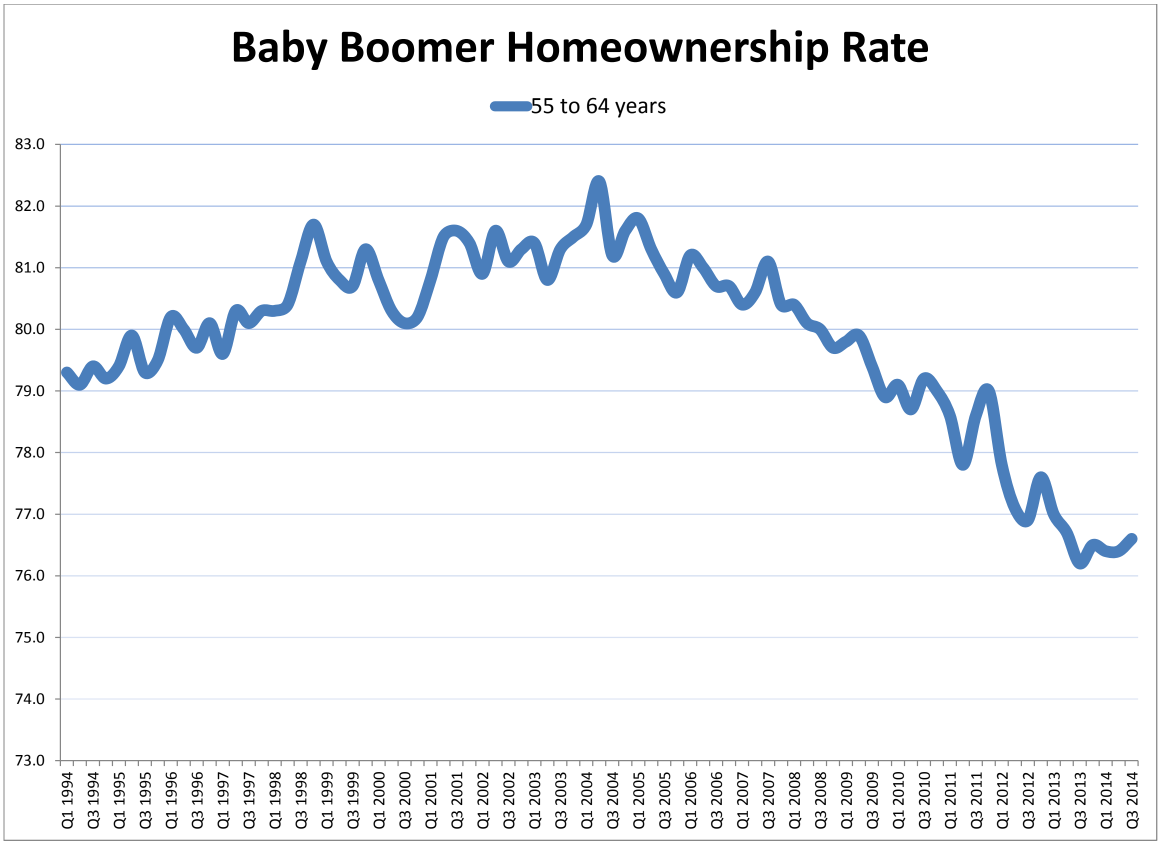

SOURCE: Census Bureau

Yun: With the Fed ready to raise Fed Funds rate in 2015, the long-term borrowing rates will rise ahead of the actual Fed move. We expect the 30-year fixed mortgage rate to average around 4.9 percent for the year 2015.

Thornberg: Up — but not by much. Yes quantitative easing is done — but that doesn't mean all that much. Most monetary economists agree that for all the efforts of the Federal Reserve in these programs, they may have moved long run rates down by a max of 30 to 35 bps — and probably less. Ultimately long run rates are driven by the supply and demand for capital, and here we still see a world awash with capital relative to the demand for it. Additionally, inflation remains a non-problem. And this implies low rates. But ultimately expect the sub-5 percent mortgage to be with us for some time.

Zandi: Forecasting interest rates is foolhardy, but if the economy improves as expected, it would be prudent to anticipate higher interest rates. Most likely, the Fed will begin raising short-term rates by mid-2015. Long-term rate also rise in anticipation of the Fed's actions.

Kolko: Up, most likely. But that's what we said a year ago, too, and look how wrong that was!

Smoke: Mortgage rates will go up in 2015 — the key questions are: When and by how much? We expect the average 30-year fixed rate to reach 5 percent by the end of the year. While the Fed may not act on increases until the second half of the year, the bond and mortgage markets are likely to move well in advance. We are also likely to see quite a bit of rate volatility in 2015 until the Fed's actions are evident and the global economic picture becomes clearer.

We are already seeing average rates increase slightly since the Fed's formal statement on Dec. 17, where they dropped "considerable time" language from their statements. Keep an eye out for more anticipatory movement as the year progresses.

How will recent efforts to loosen lending standards impact the housing market in 2015?

Yun: This will be the biggest wildcard for the housing market. But let's see if the average credit score on approved mortgages gets back to normal (which is 720 for Fannie/Freddie and 660 for FHA).

Thornberg: Clearly more credit means more buyers — and efforts to loosen credit are having an impact. The average FICO score for a Fannie Mae loan has dropped to 740 — still high, but better that the 760+ rate it was at a few years ago. And banks are more comfortable making loans. In 2014 holdings of closed end real estate loans held by the commercial banking system grew for the first time since 2007.

The latest move was to create a program in Fannie and Freddie by which first-time buyers only need to put down 3 percent. It is yet to be seen how much these programs will be accessed — but it's a good idea. As for those who think this will lead to the same problems as in 2005, well think again. The wave of foreclosures was not caused by low down payments — it was caused by people borrowing far more than they could afford to pay back. As long as the market continues to maintain realistic debt service to income ratios (and they verify that income!) then this shouldn't be a problem.

Zandi: An easing in lending standards should be a meaningful plus for housing in 2015. The largest shortfall in housing demand is by first-time buyers, and while there are many impediments to demand by these households, tight mortgage credit is at the top of the list.

Kolko: Modestly. The main obstacle to buying a home is saving for a down payment, according to Trulia's consumer survey, more than qualifying for a mortgage. Furthermore, many future first-time buyers are still years away from homeownership if they're just now moving out of their parents' homes into their first rental. But looser lending standards could help people who lost a home during the housing crisis and are ready and able to buy again.

Smoke: The actions in the fall by FHFA, Fannie Mae and Freddie Mac to clarify representation and warranty guidelines should lead to some loosening through reductions in the overlays that lenders have added to qualification standards. Higher levels of credit availability would provide a positive upside to our forecast as tight credit standards have likely limited would-be sellers as well as buyers.

The new 3 percent down payment products coming from Fannie Mae and Freddie Mac should have a positive impact on the market as they enable more first-time buyers who have good credit, but limited assets.

It's too early to say if these policy efforts and new programs are having an impact on the market, but the timing is perfect to align with large numbers of millennials moving into home ownership.

MY TAKE

By Mark Vitner

Managing Director, Senior Economist, Wells Fargo

A Slightly More Optimistic Outlook for Homebuilding

Even though 2014 proved to be a disappointing year for home sales and new single-family construction, there are several reasons to be optimistic about the housing sector in the New Year. Most importantly, job growth has improved to the point that household formations are rising again. State-to-state migration has also improved, reflecting more boomers moving into retirement and an increase in corporate relocations. Mortgage rates have also come back down, with the rate on conventional 30-year fixed mortgages falling below 4 percent. When coupled with easing credit standards and more moderate gains in home prices, the pieces all appear to be in place for a more meaningful recovery in home sales. We have slightly raised our forecast for 2015, reflecting stronger household formations.

We recognize that we may be a little ahead of the pack in raising our outlook, even if it is only slightly. Optimism about the housing market has simply been a misplaced notion for the past seven years. Most of the housing data ended 2014 on a soft note and finding bright spots in the single-family market are still much more the exception rather than the rule. The clearest areas of improvement have been in clearing the excesses from the prior decade's boom years. The overhang of foreclosures has largely been cleared. Vacancy rates for rental properties and for-sale housing have fallen back to their historical norms and home prices have rebounded to the point that just 10.3 percent of homeowners with a mortgage owe more on their mortgage than their home is worth, down from a peak of 26 percent in 2009. Supplies of homes are actually tight in markets where jobs are growing rapidly.

The absence of negatives is comforting but what the housing market has really been missing is some sort of positive catalyst. That positive may finally be taking shape in the form of stronger job and income growth. Employers added an average of 241,000 jobs in 2014, marking the strongest growth in 16 years. Not only has the pace of overall job growth improved but the breadth of the increases has improved considerably across industries and metropolitan areas.

With 2.7 million net new jobs added in 2014 and the unemployment rate falling to 5.6 percent in December, there has finally been enough improvement in the labor market that we now believe that there is significant support in place to generate a self-sustaining rebound in for-sale housing. We noted in earlier reports that the number of full-time jobs is still some 2.1 million below its pre-recession level. The mix of jobs has improved, however, with a larger proportion of jobs created during the past year being full-time rather than part-time.

With employment conditions improving, we are finally beginning to see an increase in household formations. We published a report on this earlier this week and noted that the pace of household formation appears to have picked up to 1.2 million households in 2014 and appears set to rise to 1.5 million in 2015. The rise in household formations has cut into housing vacancy rates and kept inventories of unsold homes near record lows. Total housing starts in 2014 were just around 1.0 million units, so inventories are unlikely to become bloated anytime soon.

From a purely fundamental standpoint, 2015 looks like it will be a great time to buy a home. Price appreciation has moderated, as investor buyers have pulled back from the market. Mortgage rates have fallen and credit standards continue to loosen up on an overall basis. The latest Federal Reserve Senior Lending Officers Survey shows that lenders are easing underwriting criteria modestly for prime mortgage borrowers. The FHA has also recently lowered down payment requirements for purchasing homes with FHA loans and the Obama Administration has just announced

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plans to reduce mortgage insurance premiums for FHA loans by 50 basis points. These moves should provide some incremental support to home sales this year and may provide a boost to first-time home purchases, particularly since these changes are being enacted at a time that housing demand is already likely to see some positive momentum.

The apartment market has been strong for quite some time, with some 260,000 units delivered over the past year and another 453,000 currently under development. The apartment boom has received a great deal of attention because it is so visible and plays into one of the most widely watched themes of this decade, the emergence of the millennial generation. This generation, which largely came of age during the housing bust and the rising use of mobile devices, is widely believed to put a high premium on mobility and desires to live closer in to the center city or near key transit hubs. Transit-oriented development has been one of the clear winners during what has been a disappointing past few years for housing. With the leading edge of the Millennials now in their mid-thirties, we expect to see the momentum begin to shift away from apartments and toward for-sale housing. Multi-family construction should begin to shift more toward townhome and condominium development but we still holding a large share of new projects holding on to the transit-oriented, city-centric growth model.

The housing market should steadily gain momentum in 2015, benefitting from stronger job growth and increased household formations. With inventories of homes near historic lows, any increase in demand should quickly translate into increased construction and new residential development. We now see the potential for homebuilding becoming a key upside surprise for the broader economy in 2015. Construction and development activity is picking up in several major Sunbelt markets, including Atlanta, Charlotte, Raleigh, Nashville, Dallas and parts of Southern California. All of these markets have seen an influx of new businesses and new residents in recent years and are riding a wave of corporate relocations and expansions. With job and income growth improving, credit easing further and mortgage rates remaining near generation lows, buyers and sellers should both come back to the housing market in a meaningful way this year.

Mark Vitner is a managing director and senior economist at Wells Fargo, responsible for tracking U.S. and regional economic trends. Based in Charlotte, N.C., he also writes for the company's Monthly Economic Outlook report, the Weekly Economic & Financial Commentary, and provides regular updates on the housing markets, commercial real estate, regional economies, and inflation. Mark joined Wachovia (then First Union) in 1993. Before that, he spent nine years as an economist for Barnett Banks in Jacksonville, Fla. Mark's commentary has been featured in the New York Times, Wall Street Journal, Bloomberg, and many other publications.

NEWS BRIEFS

Congress Extends Short Sale Tax Break

Borrowers who had a short sale in 2014, and faced a massive tax bill, can now breathe a sigh of relief, as a one-year extension of the Mortgage Debt Forgiveness Act was signed into law on Dec. 19.

Under the the Mortgage Debt Forgiveness Act, any mortgage forgiveness achieved in a short sale would be counted as income for home sellers whom banks allowed to sell their homes for less than the amount of their mortgage.

The bill passed 378-46 in the House of Representative and passed 76-16 in the Senate.

The Act was due to expire on Dec. 31, 2014, but was extended for one year. The average short sale has a mortgage forgiveness of about $88,500, according to RealtyTrac.

In 2014, there have been more than 121,000 short sales representing a mortgage debt forgiveness of $10.8 billion, reports RealtyTrac.

Short sales and distressed sales — in foreclosure or bank-owned — accounted for 12.7 percent of all sales in the third quarter of 2014, down from 14.2 percent in the previous quarter and down from 14.5 percent in the third quarter of 2013 to the lowest level since RealtyTrac began tracking short sales and distressed sales combined in the first quarter of 2011.

SOURCE: RealtyTrac

San Francisco Debates Eminent Domain

San Francisco may become the biggest U.S. city to use its powers of eminent domain to siege underwater mortgages, which have a higher balance than the value of the home, and refinance them into smaller, more affordable loans for borrowers.

The 11-member San Francisco Board of Supervisors is seeking to sell about $400 million of general obligation bonds in January to refinance mortgage debt.

San Francisco Board of Supervisor John Avalos introduced the eminent domain proposal. If the proposal succeeds, San Francisco will join the nearby city of Richmond to restructure underwater mortgages using eminent domain.

"There are several hundred homeowners who this program can help now, and several thousand who the program may be able to help in the near future," wrote Avalos in an Oct. 21 memo to fellow supervisors. "I'd like to stress the importance of not abandoning a substantial number of low-income, minority San Francisco homeowners because we are afraid that Wall Street will retaliate against us."

But Richmond and San Francisco's eminent domain plans have met a wall of opposition from banks and mortgage bond investors, who have sued to block the seizures.

"The Board should reject Resolution 140709 because it turns the power of eminent domain on its head by benefiting the very few at the expense of the broader home owning and home buying public," wrote the Mortgage Bankers Association and the California Mortgage Bankers Association in a June 24 letter to the San Francisco Board of Supervisors.

Eminent domain is usually used to seize land — not loans — to serve the public good, as when local governments seize blighted properties. Last year, lawmakers in California's San Bernardino County, as well as in Chicago and North Las Vegas, Nev., considered and abandoned the idea.

SOURCES: San Francisco Board of Supervisors, Bloomberg, MBA

Renters Still Dream of Homeownership

The majority of U.S. renters plan to remain renters for the next three years, and 91 percent of renters viewed homeownership as something of which to be proud, according to a recent Freddie Mac survey.

The study, commissioned by Freddie Mac and conducted by the Harris Poll, surveyed 2,000 adults through an online poll in August.

Nearly half of renters (45 percent) were "just getting by" living paycheck-to-paycheck or struggling to get by, the study found.

About 62 percent of renters between the ages of 25 and 34 indicated they will continue to rent for the next three years because they cannot afford a down payment for a mortgage. And 60 percent of those surveyed in the age range of 35 to 44 years old also said they couldn't afford a down payment for a home. The rest of the survey can be found here.

SOURCE: Freddie Mac

LEGAL BRIEFS

MERS Wins in Rhode Island

MERS Corp. won another legal battle in Rhode Island against a mortgagor who claimed the MERS, or the Mortgage Electronic Registration System didn't have the authority to assign a mortgage.

The Supreme Court of Rhode Island dismissed an appeal brought in *Breggia v. Mortgage Electronic Registration System* the case in which a borrower challenged MERS' right to assign a mortgage. A lower court had ruled in favor of MERS, but the plaintiffs filed an appeal, arguing there were errors in the lower court's ruling.

The Supreme Court confirmed the lower court's ruling, stating that it "resolved this issue in Mruk v. MERS, where we held that a mortgage with the same language as the Breggias' mortgage, 'explicitly granted the power of sale to MERS and its successors and assigns.'"

The Rhode Island victory is just the latest in a string of legal wins for MERS.

SOURCE: MERS

Miami-area Mayor Convicted of Fraud

A federal jury in Florida found a former Miami-area mayor guilty of six counts of wire fraud on Dec. 16, part of an $8 million mortgage fraud scheme that used straw buyers and false mortgage applications to collect millions from lenders.

Marie Lucie Tondreau, 54, was taken into custody and will face up to 30 years in prison for conspiracy and wire fraud convictions. Sentencing is scheduled for March 2015. She was North Miami's first Haitian-American female mayor.

"Today's conviction against Marie Lucie Tondreau is a success in our continuing efforts to fight mortgage fraud that jeopardizes our nation's financial institutions," said U.S. Attorney Wifredo A. Ferrer in a prepared statement. "Tondreau abused her prominence in the community to perpetrate the $8,000,000 mortgage fraud scheme, which thanks to the efforts of my Office's prosecutors and federal and state law enforcement we successfully unraveled."

Federal authorities accused Tondreau and three associates of signing up straw buyers for fraudulent loans on 20 properties, which resulted in losses to banks.

SOURCES: U.S. Attorney's Office, Reuters

FHFA Embraces Foreclosure Buyback Plan

Americans who lost their homes to foreclosure will be able to buy them back at current market value if the properties are owned by housing-finance giants Fannie Mae and Freddie Mac, the federal regulator overseeing the two firms announced.

Federal Housing Finance Agency (FHFA), which regulates the government sponsored agencies, ordered Fannie Mae and Freddie Mac to start selling back foreclosed properties to their previous owners, either directly or through third-party organizations.

The new policy will apply only to approximately 121,000 REO properties current owned by Fannie and Freddie, but not those foreclosed on in the future. Federal officials have expressed concerns that the policy could encourage home owners to go through foreclosure in order to buy back their homes at the current, lower price. The new policy would benefit the housing market by increasing demand for distressed homes, according to FHFA

Previously, FHFA required the two firms to demand that former homeowners pay the entire amount owed on the mortgage.

"This is a targeted, but important policy change that should help reduce property vacancies and stabilize home values and neighborhoods," said FHFA Director Melvin L. Watt in a written statement. "It expands the number of potential buyers of REO properties and is consistent with the Enterprises' practice of requiring fair-market value for those properties."

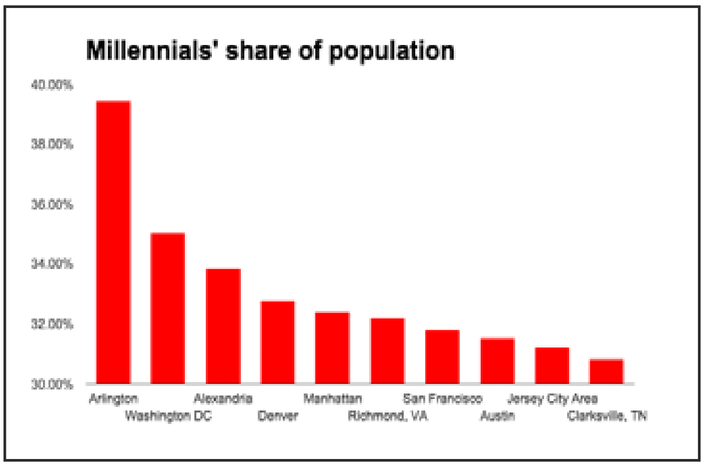
Under the changes, the former homeowners must wait at least three years after their foreclosures, as they would have to do to buy any other home using a loan guaranteed by Fannie Mae and Freddie Mac. The home must have been the buyers' primary residence; second homes and investor properties are ineligible.

SOURCE: Federal Housing Finance Agency

FINANCIAL BRIEFS

Housing: D.C., A Millennial Magnet

At 40 percent, Arlington County, Va. now has the highest percentage of millennials among all U.S. cities, according to a new report from RealtyTrac. The Washington, D.C. suburb saw the share of its residents born between 1977 and 1992 climb 82 percent from 2007 to 2013. The report found that millennials have moved to areas where home prices are almost completely out of reach, even though buying a home is cheaper than renting in many other parts of the country, and despite the fact that many millennials still say they want to own a home someday. The D.C. suburb city of Alexandria, Va. was second, with a 34 percent millennial population, up 81 percent from 2007.



SOURCE: Fusion.net

Rents: Rise 5 Years in A Row

For landlords, 2014 was a good year. Nationwide, the average rent increased by 3.6 percent in 2014, according to Reis, Inc., a real estate research firm. The increase pushed the average monthly lease rate to $1,124 a month, the highest number since Reis started collecting rental data in 1980. The cost to rent an apartment jumped in 2014 for the fifth year in a row as strong demand and short supply left vacancies near historic low levels. Average rents were up 9.2 percent in San Jose, Calif.; 7.9 percent in in Denver; 7.5 percent in Oakland, Calif. and 6.1 percent in Seattle.

Poll: Financial Stablity Concerns

A recent poll by the National Foundation for Credit Counseling (NFCC) found that 66 percent of respondents want financial stability but don't know how to get there. Nearly one quarter of respondents (23 percent) said that "I don't think financial stability is attainable for me," while 8 percent said they were "confidently on their way toward financial stability." Only 3 percent responded that they were "already there" where financial stability is concerned.

STATE SPOTLIGHT

Chicago: A Tale of Two Cities

By Octavio Nuiry Managing Editor

BEFORE: *This elegant Victorian was a boarded up foreclosure when Steele's team moved in to restore it.*

AFTER: *Fitted with contemporary upgrades, Steele's team transformed this blighted property into a lakefront dream home.*

Inside, the house opens up, with high ceilings and rich, dark flooring.

In the kitchen, Steele's team added high-end appliances, ample cabinets, a marble-topped island and multi-colored tile accent wall.

In Chicago's beleaguered South Side, the blighted, boarded-up 19th century red brick home didn't look like much when preservationist, investor, developer and real estate agent Hasani Steele's client bought it at a foreclosure sale for $65,000.

But Steele — and his clients — saw gold.

When Steele's team of investors, architects, contractors and master craftsman remodeled the turn-of-the century diamond-in-the-rough, the Victorian charmer on Chicago's South Side fetched $620,000 — ten times their initial investment. Like thousands of other vacant homes in the Windy City's urban core and suburbs, Steele is revitalizing Chicago's neglected neighborhoods — one property at a time.

"I'm showing people that there is a high-end market on the South Side," said Steele, an agent with RE/MAX Premier Properties, referring to the remodeled South Side foreclosure in the Bronzeville area near Lake Shore Drive just south of downtown Chicago. "It's a

Continued Next Page

prime spot in the city with lakefront homes and golf courses. Everything I do is done with an architect and permits."

Market Maker
In 2014, Steele's client purchased the property at at a foreclosure sale. The home is located two blocks from Lake Shore Drive. After gutting the entire house and investing $400,000 in top-of-line renovations, Steele's team sold the home to a military contractor for top dollar. The neighborhood is known as Oakland and was once a fashionable suburb just south of Chicago's gleaming downtown high rise towers.

"Everyone isn't a believer," said Steele, a graduate of Northwestern University, referring to the gentrification of the South Side. "But I know the opportunities are there."

Hasani Steele
Investor, developer, Realtor
RE/MAX Premier
Chicago, IL

"I'm showing people that there is a high-end market on the South Side. It's a prime spot in the city with lakefront homes and golf courses."

Booming Bronzeville
Steele and his real estate team are planting the seeds of revival in several struggling Chicagoland neighborhoods that most investors overlook by renovating and redeveloping distressed and vacant South Side properties. He has turned a series of dilapidated properties into attractive residences with modern finishes, while maintaining the historical elegance of these historic and dazzling landmark properties.

The Bronzeville area is made up of six neighborhoods near Lake Michigan, including Douglas, Grand Boulevard, Kenwood, North Kenwood, Oakwood and Washington Park. Steele also remodeled the home next door to the red brick home. His team tackled a third historical home on the block, which was also a recent foreclosure, as well as other properties in Oakland and adjacent neighborhoods.

Revitalization of the South Loop was well underway before the real estate crash in 2008, said Steele. Developers began buying lots because of the depressed land prices, proximity to the Loop, and the high concentration of foreclosed homes. The area's location near downtown and the lake — and its desirable housing stock — were the reasons investors and developers are starting to flock to the South Side.

"On the South Side you can still pick up lots for $40,000," said Steele.

Nobody's Home
Chicago has no shortage of properties for Steele's team to remodel. Like many other major U.S. cities, Chicago has struggled with a growing number of vacant and foreclosed properties. Officially, the city estimates that 62,000 properties are vacant, but the numbers vary widely.

Still, the scale of the problem is so immense that one Chicago area county — Cook County — created the Cook County Land Bank Authority, a newly formed quasi-governmental agency with the broad legal authority to acquire thousands of empty houses and vacant lots and put them back into productive use.

Flipping 'Affordable Green'
In the unincorporated suburban town of Cicero, just west of Lawndale on the West Side of Chicago, Chris McAuliffe, owner of [CM Real Estate Development](), a company that acquires dilapidated buildings in the towns of Cicero and Berwyn, is renovating century-old bungalows with environmentally friendly products, and selling them back to the community at affordable prices.

"I'm not only rehabbing 100-year old homes, but preserving and replacing these homes with green technology and energy efficient products," said McAuliffe, a full-time banker turned part-time green rehabber. "The Cicero house was vacant for 18 months. That area was hit hard by the foreclosure crisis."

In Cicero, McAuliffe recently purchased a circa 1928 property for $42,500. He transformed the dilapidated bungalow filled with gang graffiti into a modern,

Continued Next Page

livable, energy-efficient home. The rehab cost approximately $40,000 and he sold it for $129,900. It's the first National Association of Home Builders green-certified rehab in Illinois, according to McAuliffe.

He started his preservation and development company in 2009 and has completed 16 projects. He hires a team of experts to rehab each home in an environmentally friendly remodel, adding Energy Star appliances, green lighting, low flow faucets and toilets, tankless water heaters, and restores and re-uses wood flooring, trim and windows.

"Structurally, I want to retain as much of the original house as possible," said McAuliffe, who reuses and recycles original material in his rehabs, sanding down wood flooring, banisters and window frames to their bare wood. "We strip off layers of dirt and paint to expose the original maple and oak wood. A lot of buyers like the old wood look."

Chris McAuliffe
Developer
CM Real Estate Development
Chicago, Il

"I'm not only rehabbing 100-year old homes, but preserving and replacing these homes with green technology and energy efficient products."

The residential development boom forms a ring around the Loop, the central business district of Chicago. Fanning away from the shores of Lake Michigan, it stretches from Bronzeville, a middle-class black neighborhood on the South Side; west to working-class Cicero, the largely Mexican American community where McAuliffe toils in; northwest to the bohemian barrios of Logan Square and Pilsen, and stretching north along the affluent high rise condo towers on Chicago's Miracle Mile.

Continued Next Page

BEFORE: *In Cicero, on Chicago's West Side, Chris McAuliffe purchased this 100-year old bungalow for $42,500.*

AFTER: *A major transformation, McAuliffe turned this once eyesoar into award-winning, energy efficient home.*

Although Chicago never shared the notoriety of Las Vegas, Phoenix and Miami during America's foreclosure crisis, the Chicago metro area has the nation's fourth highest foreclosure rate and Illinois ranked fourth in foreclosure activity in December, according to RealtyTrac.

Real estate experts attribute the high number of Chicago foreclosures to numerous factors, including a high number of underwater borrowers, loss of jobs and the reluctance of banks to dump properties at prices far below the value of the mortgage loans on their books. Another reason Chicago is still struggling with stubbornly high levels of foreclosures is that Illinois is a judicial state that requires banks to go through a court system to foreclose on a property rather than simply filing a notice out of court.

The Oracle of Tech

To understand Chicago's real estate market in a fast- paced, technology-driven world, John Murray, the managing broker and owner of Key Realty in Rockford, Ill., tossed out the outdated real estate truisms of the past and embraced the information age to supercharge his real estate brokerage.

A few years ago, when distressed properties flooded the Chicago market during the recent housing bust, Murray rode the foreclosure trend all the way to the bank, building a system to handle a large volume of REO properties. Along the way, Murray, who has a background in technology, became the nation's top-selling broker.

"I'm a system's guy, not a real estate professional," said Murray, a mega listing agent who sells bank-owned properties for lenders and asset managers. "My background is in technology. I built the machine and started feeding it. The result is large volumes of transactions."

In 2003, Murray left a successful career in technology to become the primary caretaker for his ailing parents. Due to the demanding schedule to cater to the needs of his parents, he needed a flexible job — and he figured real estate could give him that flexibility. Once

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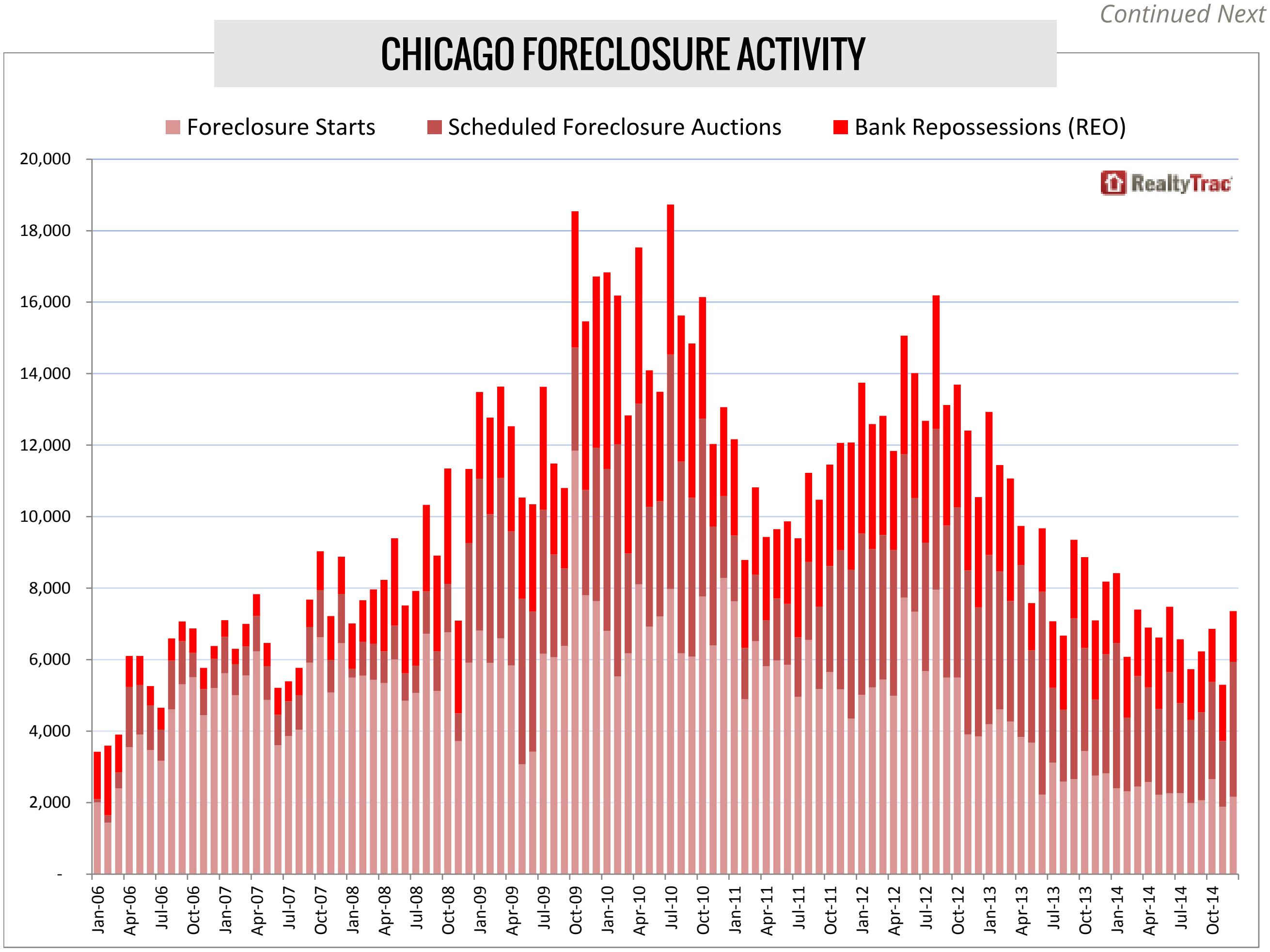


he earned his real estate license, he transferred his passion for technology to the real estate world. He said he views himself as a technology professional working in the real estate industry.

Last year, his brokerage racked up $186 million in sales, closing 1,709 transactions, the highest total among all residential brokers nationwide, according to REAL Trends, a Castle Rock, Colo.-based consulting firm.

He recently merged his brokerage with United Realty, a brokerage that specializes in traditional sales in order to prepare his brokers to work in the traditional real estate market.

Not only is Murray the managing broker of Key Realty, he is also the president and co-owner of Realty Pilot, a technology company focused on enterprise software and data analytics for the real estate industry.

Murray attributes his success to Realty Pilot, a software that helps him and his associates manage thousands of properties. The software has helped him streamline the thousands of real estate transactions he manages every year. He said Realty Pilot is a cloud-based software-as-a-service (SAAS) provider that simplifies and accelerates the processing and marketing of distressed properties.

John Murray
Managing Broker/Owner
Key Realty
Rockford, Ill.

"I'm a system's guy, not a real estate professional. I built the machine and started feeding it. The result is large volumes of transactions."

"Using Realty Pilot, a user can type in a listing number and the program immediately fills in all the appropriate information — no cutting and pasting necessary," said Murray, who has an MBA from the Kellogg School of Management. "We automated things to do basic tasks like doing BPOs (broker price opinions) and automatically inputting listing data. Things that took an hour to do, now only take minutes to do. My staff can do a BPO in five-to-seven minutes rather than one hour. It's the reason our brokerage can achieve such high volume so efficiently. We can manage assets from cradle to grave."

Murray said the Chicago residential real estate market is treading water.

"Overall, there's been a nominal improvement in the market," said Murray, who has 12 offices and 100 agents in offices in Rockford, Belvidere, Aurora, Cary, Countryside, Chicago, and two offices in Wisconsin. "Distressed sales are about the same as last year. It's not a super exciting market. It's a long, slow recovery."

"My secret is Realty Pilot's Concourse 360," said Murray, referring to the software platform his firm uses to manage thousands of sales and listing transactions. "I'm able to review all aspects of every property we sell, all in one system. The virtual brokerage capabilities have allowed me to be more efficient, selling more homes with less overhead and greater insight into each sale. It's like having my office in the palm of my hands no matter where I go."

Murray said he has noticed a decrease in Chicagoland inventory.

"For sale inventory is at historic lows," he said. "We haven't been this low since 1995. There's three main reasons inventory is low: homeowners are underwater and can't sell, household formation is down because millennials aren't buying, and banks don't have an incentive to lend. I think all these things are causing people not to move."

"I'm still seeing a lot of distress," said Murray, describing Chicago's foreclosure cycle. "In November, foreclosure activity was down slightly, but we are about the same compared to last year. The REO cycle drops in January and February and increases in March. Then, it peaks in June and July. That's what we'll see this year too."

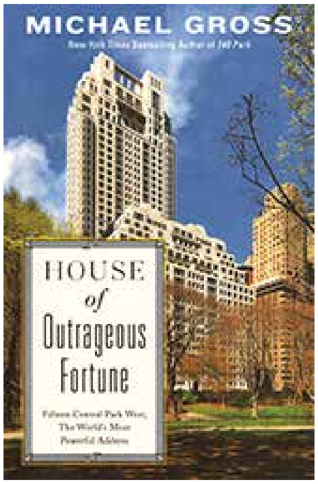
"The only thing that's helping the recovery is that the shortage of inventory has increased demand," said Murray, who has sold over 10,000 houses in 11 years.

The Chicagoland real estate market will eventually return to a normal market, and when it does, investors and agents like Murray, Steele and McAuliffe will be there to thrive.

BOOK REVIEW

Tower of Power: Where the People That Run the World Live

By Octavio Nuiry, Managing Editor



Sting lives there.

So do actors Denzel Washington and Kelsey Grammer. Some of Wall Street's most celebrated financiers nest there too. Globetrotting moguls, Russian oligarchs and Arab petro-dollar princes call it home. And 202 of the world's most powerful, uber-rich, 0.1 percent billionaire aristocracy that controls the levers of wealth and power in entertainment, finance, information, technology and commerce.

In real estate-obsessed New York City, Fifteen Central Park West is the city's most exclusive address; a two-tower luxury condominium in one of the most luxurious and powerful residential buildings in Manhattan, where some of the world's wealthiest new-money nobility park their newfound cash, according to Michael Gross, author of "House of Outrageous Fortune: Fifteen Central Park West, the World's Most Powerful Address," (Atria Books, 2014; 394 pages, $28.00).

"Fifteen Central Park West is more than an apartment building," writes Gross, author of many real estate books, including "740 Park," a gossipy tome about a Park Avenue old-money coop tower, and "Unreal Estate," a book about real estate in Los Angeles. "Fifteen represents a massive paradigm shift in the lifestyle of New York's rich and famous. It is the most outrageously successful, insanely expensive, titanically tycoon-stuffed real estate development of the twenty-first century."

Built in 2007, 15CPW, as it is known locally, was the first full-block lot on the periphery of Central Park to be developed and designed in decades as a luxury apartment for the rich and famous, which can afford multi-million dollar castles in the sky.

"At $10,000-plus per square foot for its best spaces, the condos at 15CPW have defied conventional wisdom, the stagnant world economy, and to some, common sense, too," writes Gross in the preface, titled "Clash of the Titans," describing the early bidding war between Wall Street giants Carl Icahn and Rob Loeb over Penthouse 39, a colossal, two apartment gem with 360-degree views of Manhattan's skyline, eight bedrooms, 10 bathrooms, two terraces, and 14 foot ceilings. "Though there was no direct contact between Icahn and Loeb, and Icahn says they are friends, their contest for Penthouse 39 at Fifteen Central Park West was a watershed. The clash of the titans was the first indication that 15CPW would become an apartment building like no other, a new colossus both literally and figuratively, a status signifier nonpareil, a towering symbol of its time."

Gross goes on to describe Loeb's $45 million, full-price winning bid (plus $28,607.34 in monthly charges), not to mention the hundreds of thousands in real estate taxes. Dubbed "Limestone Jesus" by the real estate bloggers at Curbed NY, Gross writes that the building "represents the resurrection and the life of our era's aristocracy of wealth."

Indeed, Fifteen Central Park West, perched on the southwest corner of Manhattan's Central Park near Columbus Circle, was built for incredibly rich people with every single thing they would want in mind. The building, writes Gross, has many amazing amenities, including a health club complete with a 70-foot subterranean lap pool with natural light provided by a ground-level reflecting pool. There's a private walnut-lined library, a private 60-seat dining room with a private chef offering room service for residents. The building boasts two concierge staffed lobbies, a courtyard for chauffer's for privacy. There's a billiards room, a screening room, a conference room and penthouses that cost nearly $100 million.

The average cost of an apartment at Fifteen Central Park West is $6,300 a square foot, the priciest building in NYC, he reminds readers. Gross writes that the highest priced apartment sold in New York City was sold in 15CPW in 2011, when former Citigroup boss Sanford "Sandy" Weill sold his penthouse for $88 million to a trust set up for the 22-year old daughter of a Russian oligarch.

The building features both renters and owners. Some of the most famous renters include alleged steroid-pumping New York Yankee batter Alex Rodriguez and actor Mark Wahlberg. Rents range from $18,000 to $55,000 a month.

Owners include television writer-producer Norman Lear, NASCAR's Jeff Gordon, hedge fund head Daniel Och, Lloyd Blankfein, head of Goldman Sachs, which helped the developers, the Zeckendorf brothers, finance the building, and top executives at Citibank, JPMorgan Chase, AIG, Disney, Google, and Yahoo!

"For this moment, this house of outrageous fortune, 15CPW, is the high altar of their secular religion," he writes, referring to the ultra-moneyed, global super elite that calls 15CPW home. "Apartments at 15CPW are often second, third, or fifth homes, and they are not rented out to pay expenses; they sit empty for months at a time."

Given the recent real estate development boom on 57th Street, Gross will have many sequels to write about the new "billionaires' row" rising to the sky and reshaping Manhattan's skyline.

TOP 20

Foreclosure rates in the Nation's 20 largest metros in December 2014

Rank	Metro	Housing Units Per Foreclosure Filing (Rate)
1	Tampa, FL	448
2	Miami, FL	489
3	Philadelphia, PA	494
4	Chicago, IL	516
5	Baltimore, MD	524
6	Riverside, CA	656
7	New York, NY	679
8	Washington, DC	1,076
9	Houston, TX	1,205
10	San Diego, CA	1,249
11	Los Angeles, CA	1,259
12	Atlanta, GA	1,272
13	Seattle, WA	1,273
14	Minneapolis, MN	1,381
15	Phoenix, AZ	1,589
16	Detroit, MI	1,655
17	St. Louis, MO	1,703
18	San Francisco, CA	2,023
19	Dallas, TX	2,143
20	Boston, MA	3,311

December 2014

State-by-State Foreclosure Activity Summary

Rank	State	Default	Auction	REO	Total	1/every X HU (rate)	%Δ from Nov14	%Δ from Dec. 13
	U.S. Total	**42,433**	**47,784**	**24,005**	**114,222**	**1,153**	**1.53**	**-0.97**
28	Alabama	0	988	198	1,186	1,832	-24.70	-13.81
23	Alaska	87	66	46	199	1,535	-4.78	145.68
25	Arizona	0	1,014	652	1,666	1,706	6.11	-46.38
44	Arkansas	0	144	139	283	4,653	20.43	-42.13
12	California	5,664	3,889	2,468	12,021	1,137	18.75	-13.38
34	Colorado	0	678	256	934	2,368	-10.96	9.50
9	Connecticut	917	192	272	1,381	1,076	11.01	-25.39
6	Delaware	270	148	76	494	822	-15.70	36.09
	District of Columbia	0	6	2	8	37,084	-11.11	-52.94
3	Florida	4,420	7,370	4,665	16,455	546	-15.39	-24.81
17	Georgia	0	2,007	920	2,927	1,396	-26.55	-39.41
29	Hawaii	206	20	51	277	1,877	-10.93	28.84
38	Idaho	37	95	129	261	2,554	-59.53	-21.39
4	Illinois	2,314	4,058	1,612	7,984	663	27.89	-8.63
8	Indiana	1,080	1,145	484	2,709	1,033	-9.73	1.50
19	Iowa	323	302	320	945	1,415	-21.18	-16.59
43	Kansas	181	109	98	388	3,178	6.01	-4.20
41	Kentucky	78	396	160	634	3,041	-37.60	-6.07
27	Louisiana	189	609	315	1,113	1,765	15.22	-6.63
21	Maine	235	127	113	475	1,518	53.23	-26.13
2	Maryland	2,571	1,002	847	4,420	538	7.94	-9.17
40	Massachusetts	491	337	177	1,005	2,790	-29.18	80.11
24	Michigan	0	1,685	1,187	2,872	1,578	-4.27	-26.15
31	Minnesota	0	920	302	1,222	1,921	1.08	19.69
45	Mississippi	0	190	47	237	5,377	5.33	288.52
39	Missouri	0	640	360	1,000	2,711	8.23	17.10
49	Montana	0	11	22	33	14,588	-26.67	26.92
32	Nebraska	141	44	212	397	2,008	78.03	782.22
5	Nevada	911	502	310	1,723	680	15.17	0.47
36	New Hampshire	0	186	59	245	2,506	-3.92	-34.49
1	New Jersey	10,280	1,651	501	12,432	286	67.16	211.89
18	New Mexico	395	167	80	642	1,403	23.70	20.68
26	New York	3,879	452	331	4,662	1,738	-3.36	38.46
10	North Carolina	2,026	1,034	822	3,882	1,114	-5.71	119.45
50	North Dakota	6	0	5	11	29,043	175.00	450.00
7	Ohio	1,915	2,089	1,526	5,530	927	-6.68	17.89
35	Oklahoma	114	354	205	673	2,473	-27.01	-25.47
15	Oregon	161	815	280	1,256	1,332	25.60	82.82
13	Pennsylvania	1,563	2,220	892	4,675	1,190	9.43	4.03
16	Rhode Island	0	280	58	338	1,369	52.94	6.96
11	South Carolina	880	676	332	1,888	1,131	-17.48	-31.94
48	South Dakota	0	14	14	28	12,993	-3.45	-45.10
33	Tennesee	0	1,100	198	1,298	2,166	-2.55	4.51
30	Texas	20	4,377	828	5,225	1,910	-2.84	10.19
20	Utah	70	486	136	692	1,416	-47.01	-48.70
47	Vermont	0	16	10	26	12,394	-29.73	225.00
37	Virginia	0	1,056	277	1,333	2,525	-3.68	-28.72
22	Washington	76	1,309	500	1,885	1,530	-17.18	-10.02
46	West Virginia	0	43	58	101	8,735	1.00	44.29
14	Wisconsin	933	709	426	2,068	1,267	0.88	-5.31
42	Wyoming	0	56	27	83	3,150	-13.54	20.29

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HOUSINGNEWSREPORT

Housing News Report is a monthly publication dedicated to helping investors succeed by providing them with timely and relevant information about the housing market.

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