

Housing Watch

United States

Houston, August 13, 2013
Economic Analysis

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Home Price Appreciation to Moderate

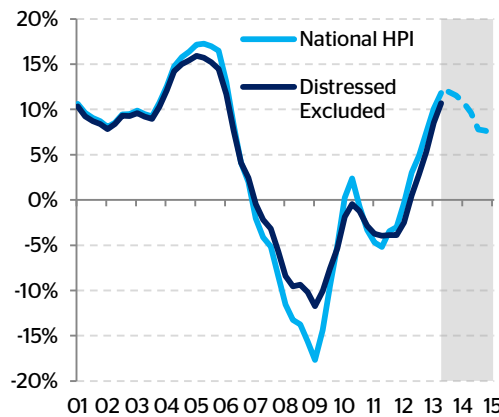
- Both new and existing inventory are steadily rising, but housing inventory remains tight.
- The sharp uptick in mortgage rates and median home prices has caused affordability to plummet.
- Higher mortgage rates will rein in double-digit price appreciation.

Rate Dashboard

Day	30-Yr. Fixed	10-Yr. Treasury	Spread (bp)
12-Aug	4.44	2.57	187
29-Jul	4.48	2.58	190
11-Jul	4.78	2.70	208
10-Jun	4.19	2.17	202

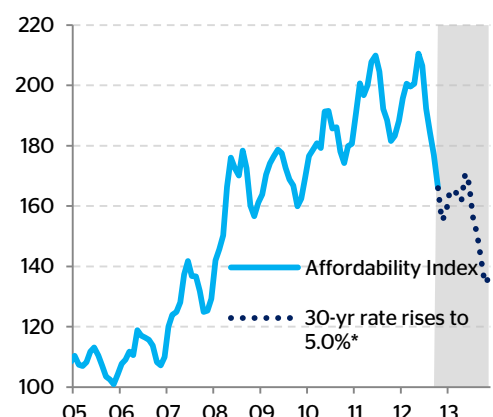
Source: Federal Reserve, WSJ / Haver

Chart 1
Core Logic Home Price Indexes and Forecast YoY % Change



Source: CoreLogic / Haver, BBVA Research

Chart 2
Housing Affordability Index, Composite 100=Median Family Income Likely to Qualify



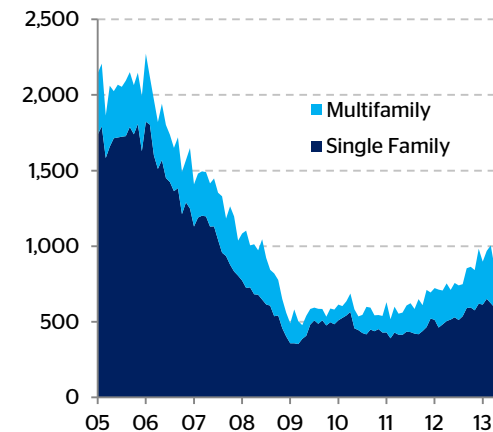
Source: National Assoc. of Realtors / Haver, BBVA Research
*Projection if 30-year fixed rate were to reach 5.0% by July 2014

Chart 3
Months' Supply of Single Family Homes for Sale



Source: National Assoc. of Realtors / Haver

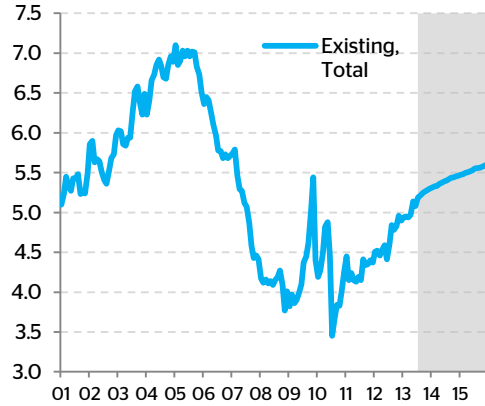
Chart 4
Housing Starts, by Type, Thousands of Units, SAAR



Source: National Assoc. of Realtors / Haver

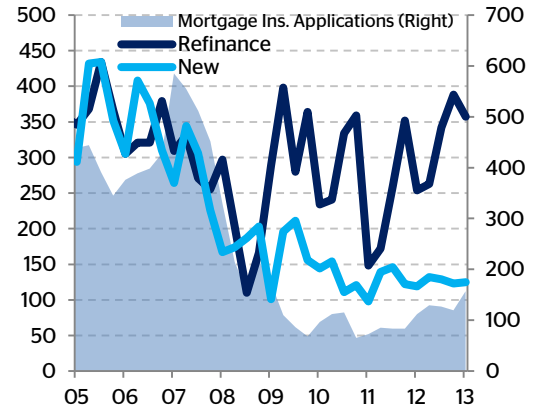
Key Mortgage Market Indicators

Chart 5
Total Existing Housing Sales, Break Adjusted, Thousands, SAAR



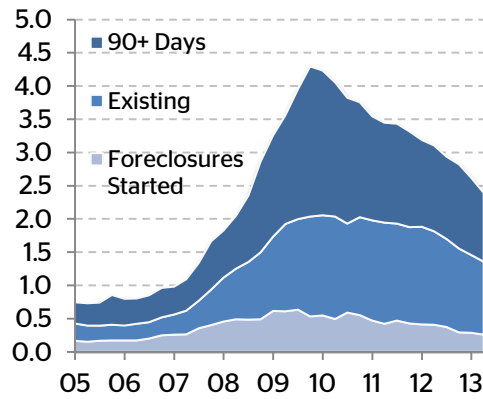
Source: National Assoc. of Realtors / Haver, BBVA Research

Chart 6
Mortgage Originations and Applications
Originations, Billions USD; Applications, Thousands



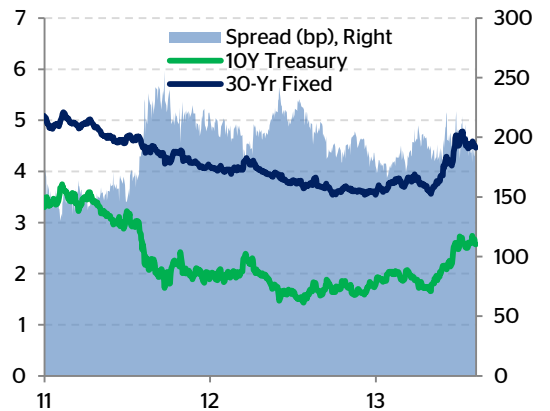
Source: National Assoc. of Realtors / Haver

Chart 7
Inventory of Foreclosures and 90-Day+ Delinquencies
Million Units, Quarterly Data, Through 1Q13



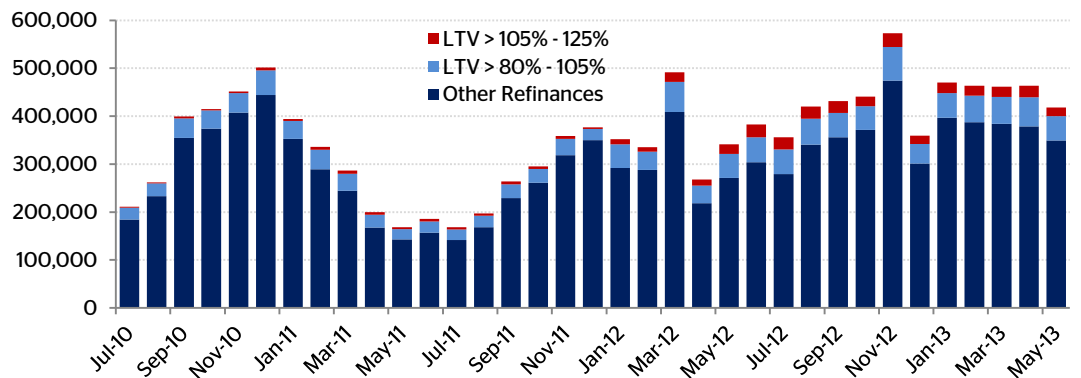
Source: BBVA Research & MBA / Haver

Chart 8
10-Year Treasury Yield and Mortgage Rate (%)
Difference on right in basis points (bp)



Source: Federal Reserve, WSJ / Haver, BBVA Research

Chart 9
HARP-Backed Fannie Mae and Freddie Mac Total Refinancing Activity, Number of Loans



Source: Freddie Mac and Fannie Mae / Haver Analytics and BBVA Research

Key Mortgage Market Indicators

Mortgage Market Indicator	Units	Obs. Mo.	Current	Prior Mo.	6-Mo. Ago
Core Logic Home Prices	YoY% Change	Jun	11.8%	11.7%	8.9%
Excluding Distressed	YoY% Change	Jun	10.9%	10.5%	6.6%
Existing Home Sales		Jun	5080	5140	4900
Northeast	Thousands	Jun	630	640	620
Midwest	of Units,	Jun	1210	1210	1120
South	SAAR	Jun	2030	2060	1940
West		Jun	1210	1230	1220
Existing Months of Supply		Jun	5.2	5.0	4.5
New Home Sales		Jun	497	459	396
Northeast	Thousands	Jun	32	27	29
Midwest	of Units,	Jun	67	76	48
South	SAAR	Jun	274	247	221
West		Jun	124	109	98
New Months of Supply		Jun	3.9	4.2	4.5
Affordability Index, Seasonally Adjusted		Jun	179	183	196
Refinance Share, %		Jun	68	75	84
Mortgage Rate	%	Jul	4.37	4.07	3.41
10-Yr Treasury (CM)	%	Jul	2.58	2.30	1.91
Spread	bp	Jul	179	177	150

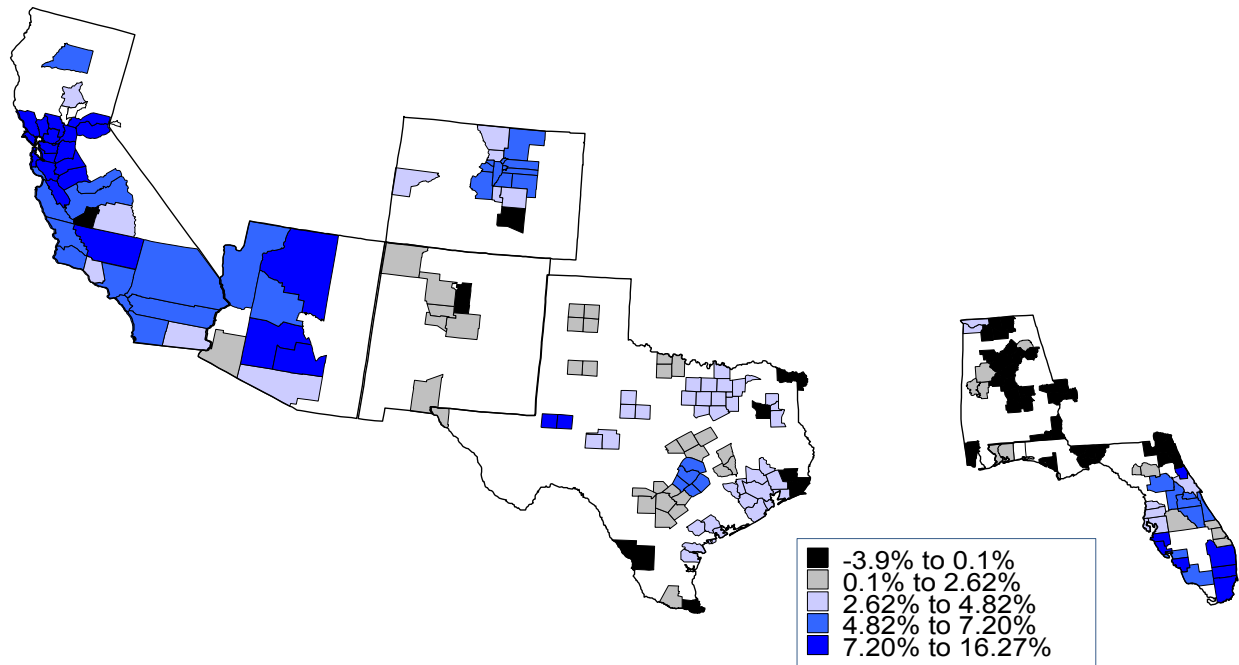
Asset Quality Metrics		Obs. Qtr.	Current	Prior Qtr.	4-Qtrs Ago
Res. Loan Delinquency Rate - Top 100 Banks	%	Q1-13	10.9	11.2	11.6
Foreclosures Started, Per Qtr	Thousands	Q2-13	260	287	408
Foreclosure Inventory	Thousands	Q2-13	1355	1456	1815
Mortgages Past Due (30 Days-		Q2-13	7.0	7.3	7.6
Alabama		Q2-13	9.5	9.6	9.6
Arizona	% of	Q2-13	5.1	5.5	6.5
California	Mortgages	Q2-13	5.4	5.9	6.5
Colorado	Serviced,	Q2-13	4.8	4.9	5.1
Florida	MBA	Q2-13	7.1	7.7	8.0
New Mexico		Q2-13	5.9	6.0	6.1
Texas		Q2-13	7.7	7.9	8.0

Labor Market	AL	AZ	CA	CO	FL	NM	TX	US
Employment Growth (Y-o-Y % Change)								
Jun-13	1.2%	2.0%	1.8%	2.7%	1.7%	1.0%	2.8%	1.7%
May-13	0.7%	2.0%	1.8%	2.4%	1.7%	0.8%	3.0%	1.6%
Jun-12	0.9%	2.5%	2.4%	2.4%	2.1%	-0.1%	2.9%	1.6%
Empl. Change, YTD, Thousands	20.2	20.1	123.7	32.5	69.8	4.6	143.2	1185.0
Unemployment Rate (SA, %)								
Jun-13	6.5	8.0	8.5	7.0	7.1	6.8	6.5	7.6
May-13	6.8	7.8	8.6	6.9	7.1	6.7	6.5	7.6
Jun-12	6.9	7.9	9.0	6.9	7.2	6.7	6.4	7.5

Sources: Core Logic, NAR, Census, Mortgage Bankers Association, Freddie Mac Primary Mortgage Market Survey, Federal Reserve, BLS / Haver Analytics and BBVA Research

Metro Area Housing Prices: Across the Sunbelt

Year-over-Year % Change, by Quintile, 1Q13; FHFA All Transactions Index



Bottom Line

In line with our expectations, housing affordability indexes have declined rapidly as the median home price is up over 13% year-over-year and mortgage rates have climbed above 4%. Still-tight housing inventory and declining foreclosures signal further price appreciation in many markets, as the pace of housing sales remains on a positive trend. Nevertheless, the sharp rise in mortgage rates during the past two months will dampen price appreciation. Consequently, we anticipate 9% growth in housing prices in 2014.

In spite of the uptick, mortgage rates remain near historical lows, and thus, it remains an attractive time for qualified buyers to search for a home. Moreover, potential buyers who may have been reluctant now perceive that rates and home prices are going to rise further. We do not expect the pace of sales to decline sharply, as the sustained upward trend of new home sales- particularly in the South and West regions- offers evidence to this point. Low inventory combined with sustained demand will continue to back single-family home construction and drive residential investment.

Although asset quality and tepid demand for new mortgages restrain the pace of mortgage lending at many banks, new foreclosures and delinquent mortgages continue to decline. Furthermore, refinance activity has allowed banks to capture market share and shape the quality of their residential loan portfolios. Recent indicators, however, reveal that refinancing activity declined sharply in June and July as mortgage rates climbed. As a consequence of reduced refinance activity and rising rates, competition to originate new high quality mortgages will intensify.

S&P/Case Shiller Metro Area Home Price Indexes				
YoY% Change	May-13	Prior Mo.	6-Mo. Ago	1-Year Ago
Phoenix	20.6%	21.4%	22.8%	11.4%
Denver	9.7%	9.9%	7.8%	3.6%
Los Angeles	19.1%	18.7%	7.8%	-2.0%
San Diego	17.3%	14.7%	8.0%	-1.2%
San Francisco	24.4%	23.9%	12.7%	0.5%
Miami	14.2%	12.9%	10.0%	3.3%
Tampa	10.9%	11.3%	6.8%	2.5%
Dallas	7.6%	7.4%	5.9%	3.8%

Source: S&P/Case Shiller / Haver Analytics and BBVA Research

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