

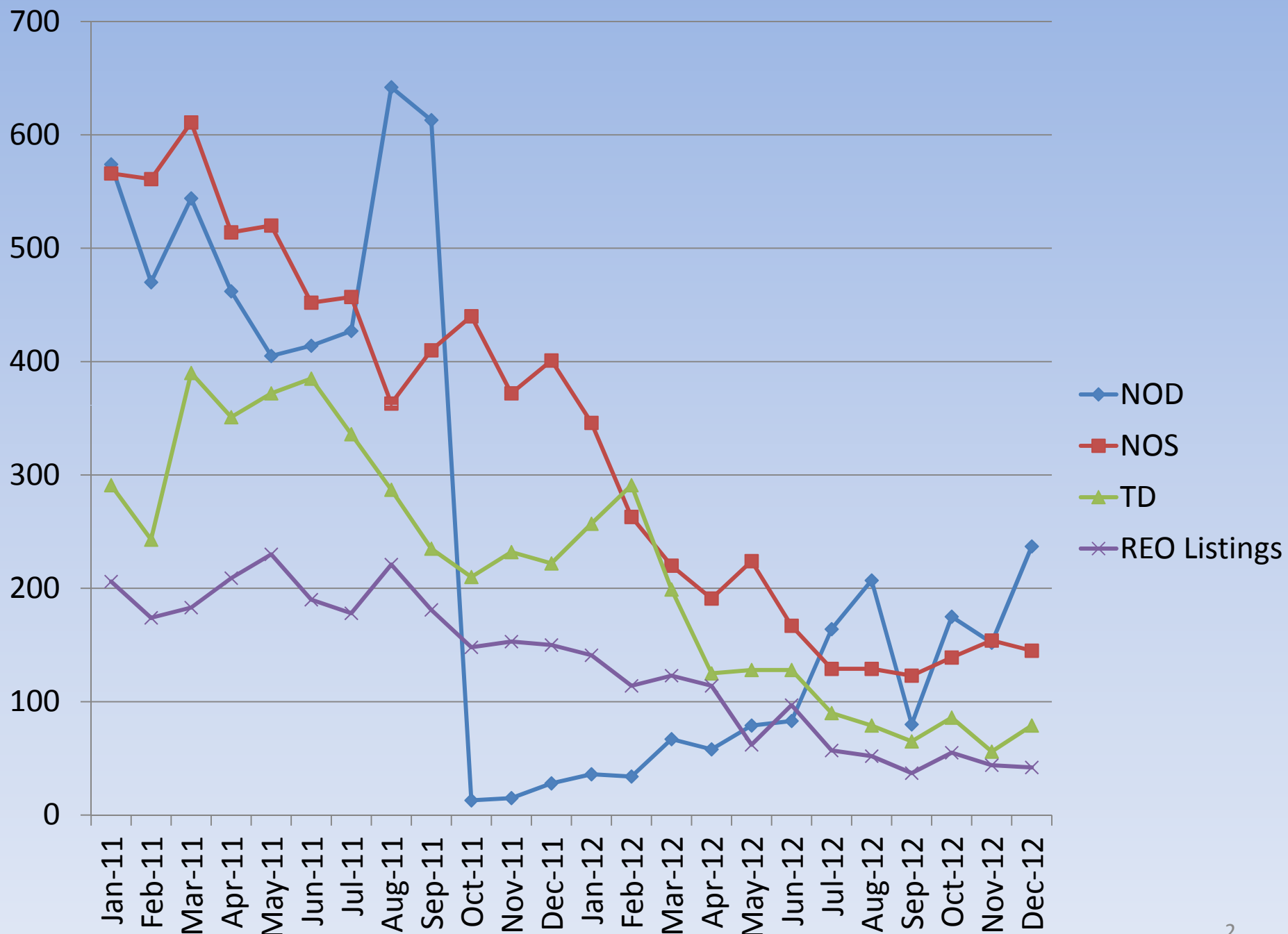


2012 Residential Review Shadow Inventory 2013 Residential Forecast

Steve Schiller

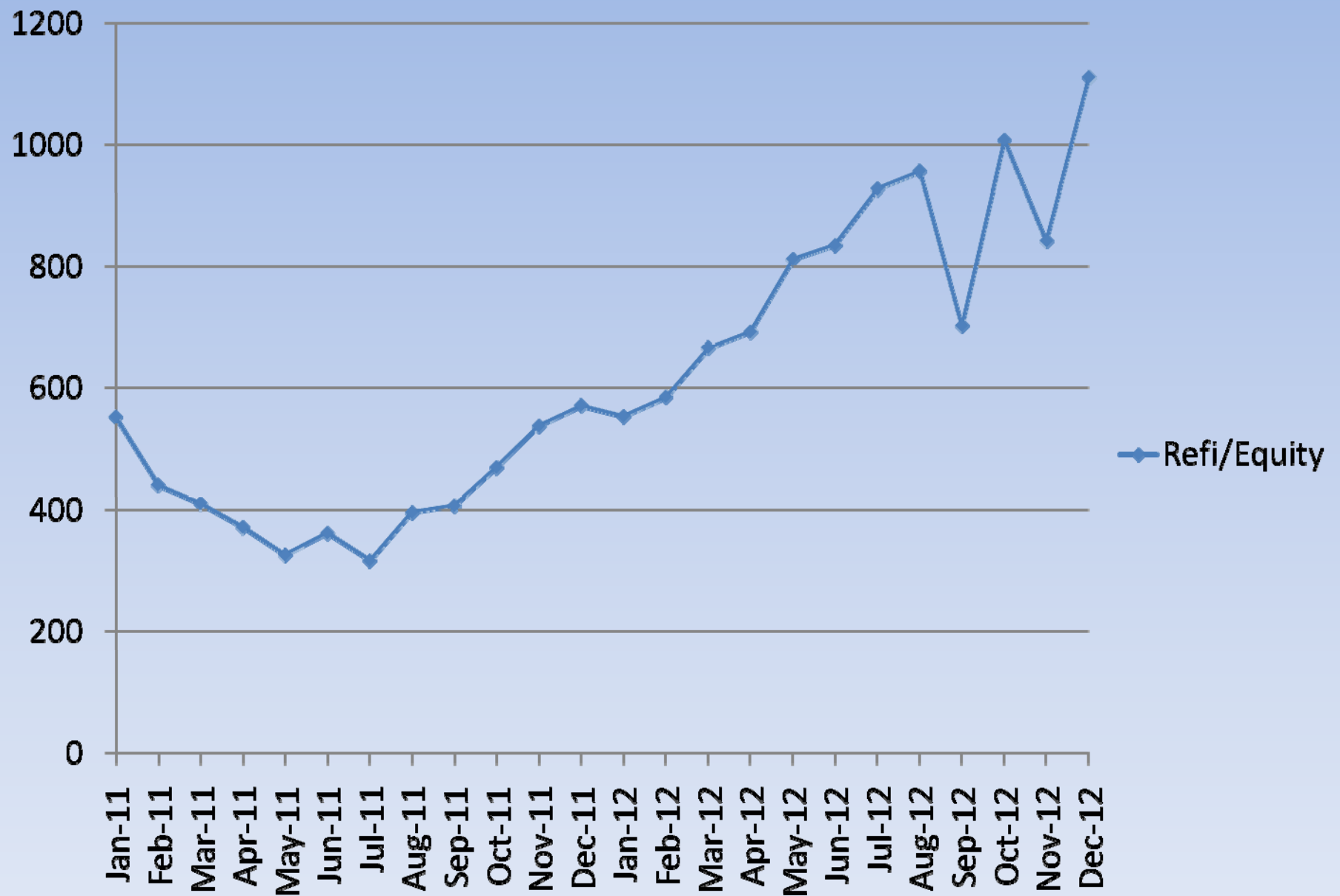
Ticor Title of Nevada, Inc.

President – Northern Nevada Operations



Source: Washoe County Public Records

Refi/Equity



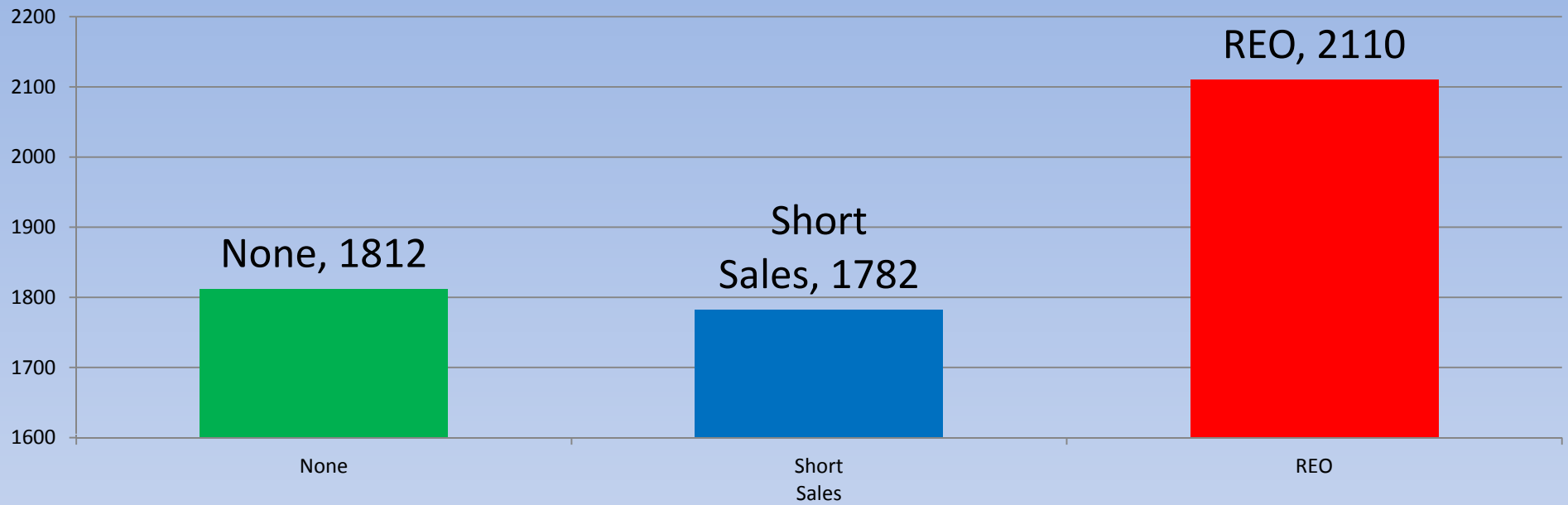
Source: DataQuick Information Systems

2005 – 2012 Resale Transactions

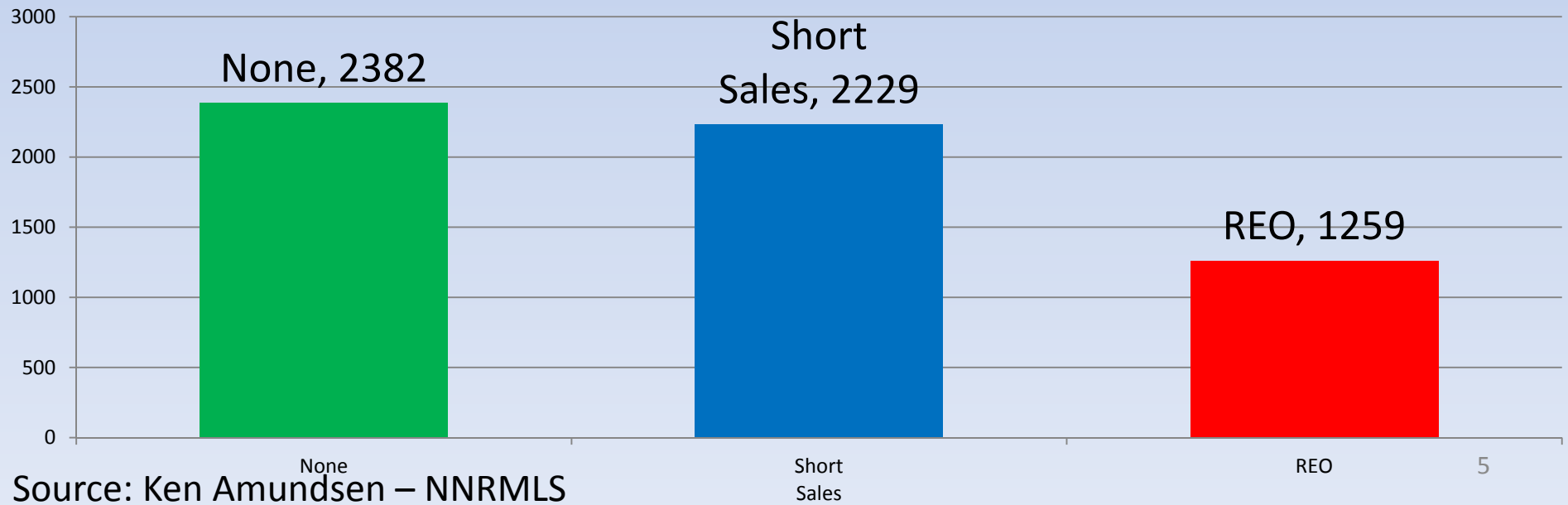


Source: DataQuick Information Systems

2011 Home Sales Mix

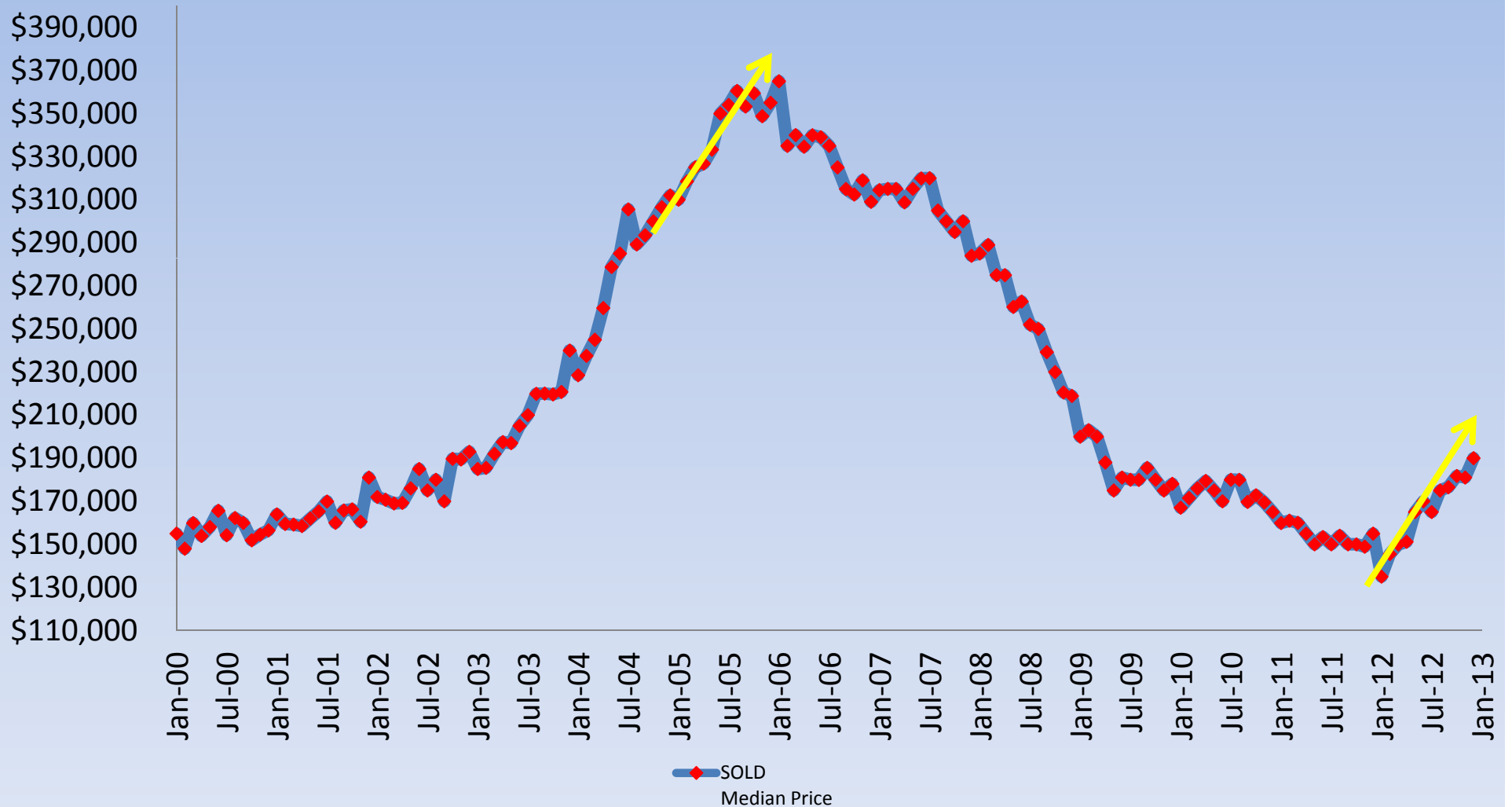


2012 Home Sales Mix



Source: Ken Amundsen – NNRMLS

Sold – Reno Area Single Family Homes – Median Price History



Source: Ken Amundsen – NNRMLS

Shadow Inventory ?

- 1) Loans currently in the Foreclosure Process
- 2) Loans that have been foreclosed on but the properties have not been resold.
- 3) Loans that have delinquent borrowers and should be moving through the foreclosure process, but are not due to new laws/regulations. “The AB284 Effect”

Shadow Inventory ?

| | | |
|---|---------------|-------|
| NOD's filed between Jan-09 & Sep-11 | 24,779 | |
| Trustee Deed's filed between May-09 & Dec-12 | <u>11,405</u> | |
| | 13,374 | |
| Short Sale Transaction between May-09 & Dec-12 | <u>6,695</u> | |
| | 6,679 | |
| Modifications/Refi's/Paid Current/Duplicate NOD or 2nd loan | <u>X 50%</u> | |
| | 3,340 | 3,340 |
| Trustees Deed filed between May-09 & Dec-12 | 11,405 | |
| | <u>X 90%</u> | |
| | 10,265 | |
| REO sold transactions between May-09 & Dec-12 | <u>6,378</u> | |
| | 3,887 | 3,887 |

AB284 Affect

| | |
|---|-----------|
| Avg. number of NOD's per month the 12 months pre AB284 | 546 |
| Avg. number of NOD's per month the 15 months post AB284 | <u>95</u> |
| Difference per month | 451 |

Consider a 30% decline in new NOD's $451 \times 70\% = 316$

$316 \times 15 \text{ months} = \underline{4,740}$

Potential Shadow Inventory 11,967

Average number of sales per month in 2012= 694 Potential of 17.24 months of shadow inventory

2013 Forecast

NOD's ↑

NOS's ↑

Trustee's Deeds ↓

REO listings ↔

Resale ↔

Refinance ↓



Thank you

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2012 Residential Review ~ Shadow Inventory ~ 2013 Residential Forecast
Washoe County

Slide 2 – Foreclosure Market Review

As addressed at last year's forecast, Assembly Bill 284 which went into effect on Oct. 1st 2011 has had a dramatic effect on new foreclosure proceedings.

The 12 months prior to the implementation of AB 284 we averaged 546 new Notices of Defaults (NOD) per month and only 95 per month since. From October 2011 through February 2012 the new NOD's recorded were primarily by private beneficiaries followed by some of the regional banks who held the delinquent loans in the portfolios and more recently we have seen some of the institutional banks start recording new NOD's. We believe we will continue to see a gradual increase in the number of new NOD's as Lenders and Trustee's become more comfortable with their processes and the requirements of AB284.

This topic will again be addressed in the 2013 legislative session. NLTA (Nevada Land Title Association) is bringing forward a bill that will hopefully provide some clarification and address some of the industries concerns with the original legislation.

With the reduction in new NOD's we have also seen a dramatic drop in the number of Notice of Sales and Trustees Deed recordings, which has led to a reduction in the overall number of REO (Bank Owned) properties on the market.

Slide 3 – Refinance/Equity

We continued to see an increase in the number of refinance transactions throughout 2012, driven by historically low interest rates and government assistance programs such as HARP and HARP 2.0.

Slide 4 – Resale Transactions – All Types of Transactions

The volume of Resale Transactions continued to grow with 2012 finishing the year with the highest number of closed transactions since the boom year of 2005 when we reached just under 12,000 total closings.

Slide 5 – 2012 Home Sales Mix

2012 saw a dramatic change in the type of resale transactions being closed. 2011 was dominated by REO closings and as previously discussed the number of REO properties on the market has been decreasing since the end of 2011. 2012 saw a shift from the REO closings to the short sale and non-condition or "Equity" sales.

Slide 6 – Sold Reno Area Single Family Homes – Median Price History

The Single Family Home Median Sales price showed considerable growth in 2012. January reported a fairly dramatic drop in Median price to \$135,000; we have seen a continual rise in Median price since, reaching \$190,000 in December. With the lack of new REO inventory and the high number of sales our overall inventory continues to dip to just over 600 non pending active listings, this continues to create a highly competitive market pushing up prices. You can see the appreciation in 2012 is similar to that of the bubble years of 05-06.

Slide 7 - Shadow Inventory

To determine shadow inventory let's look at three components of the potential shadow market

1. There are loans that are in some stage of the foreclosure process, which means, the lender has filed the NOD but has not completed the foreclosure, by crying the sale.
2. Second, we will examine the Loans that have been foreclosed, but the lender has not resold the property. Typically this would be the vacant properties held by the banks that for various reasons have not been put back on the market. Or, REO inventory not yet listed.
3. And finally, we will discuss the delinquent loans that have not even started the foreclosure process, primarily due to government intervention, for example, AB284 & National Mortgage Settlement.

Slide 8 – Shadow Inventory Calculation

There are many different variables that may affect the calculations that are in this presentation, but we want to take a big picture view of the potential shadow market.

Let's take a look at the first component – Loans currently in default.

- From Jan-09 until Sep-11 there were over 24,000 NOD's recorded.
- Considering a standard 120 foreclosure cycle we looked at the number of Trustees Deeds (TD) filed between May-09 and Dec-12. So we would subtract that number from the total Notice of Defaults (NOD's) filed, leaving us with 13,374. We also need to address the homes in default that were sold via short sale. If every short sale transaction did indeed have a NOD we would need to eliminate those closings from our total, leaving us with 6,679. Assuming 50% of the remaining NOD's were cured by Modifications, refinance, paid current or the NOD was a duplicate or for a second loan that would leave us with 3,340 potential loans currently in some stage of the Foreclosure (FCL) process.
- Next let's look at the potential REO inventory. As noted earlier there were 11,405 TD's recorded between May-09 and Dec-12. Assuming 10% of all TD's were FCL's purchased by

third party investors at the sale that would leave us with 90% of the FCL's that went back to the Lender, or 10,265. During that same period (May-09 – Dec-12) 6,378 REO transactions recorded, leaving us with potentially 3,887 properties that may be part of the REO shadow inventory.

- And finally, the Assembly Bill 284 (AB284) affect and the National Mortgage Settlement. We averaged 546 NOD's per month the 12 months prior to AB 284 and just 95 in the 15 months since, or a difference of 451 per month. Assuming this drastic drop was based on the new requirements of AB284 and not a dramatic increase in the number of borrowers that could now afford their mortgage; we can assume there should have been a large number of loans starting the Foreclosure Process that did not.

Assuming a 30% decline in new delinquencies the monthly number would have dropped to 316 and over a 15 month period the potential number of loans that should be working their way through the Foreclosure process, but are not, is about 4,740.

If you add the three components together there is a potential **shadow inventory of 11,967 properties**.

In 2012 we averaged 694 sales per month, which means there is potential for over 17 months of shadow inventory in our market.

Again we realize that there are many variables that could affect the numbers you see here.

Slide 9 – 2013 Forecast

So what does 2013 hold for the residential markets?

We believe that we will see a slight increase in new NOD's as lenders continue to work through the issues of AB284. Potential legislation in the 2013 session could alleviate some of the Lender concerns and possibly bring a steady increase to the number of new foreclosure proceedings in the 4th Quarter of the year.

As the number of new Notice of Default increase, we will see a correlating increase in the Notice of Sales.

Trustee Deeds will lag behind as Lenders work through the typical foreclosure mediation and Trustee Sale process and we don't see a significant increase in completed foreclosures until the start of 2014.

Naturally this will also lead to minimal growth, if any at all in the new REO inventory.

Resale transactions will stay relatively flat throughout 2013. We will continue to struggle to build new inventory, but with the mortgage debt relief act extended through 2013, short sales will continue to play a significant role along with New Home sales and Investor Sellers.

At the end of 2012 the Mortgage Bankers Association projected a whopping 60% decrease in new refinance originations in 2013. Fannie Mae and Freddie Mac also projected a sharp decline of 37%. While we don't believe we will see that sharp of a decrease here in Northern Nevada, there will be a decline in the number of new refinance transactions as most current government programs wind down and the pool of qualified borrower's decreases.

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