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U.S. Economic Outlook: September 2018
Disasters and Housing

By Frank E. Nothaft

The fury of Mother Nature can wreak havoc on a neighborhood. Wildfires, hurricanes, volcanoes and earthquakes can leave significant destruction in their wake, as many communities in the U.S. have witnessed first-hand. The severe damage to homes and commercial buildings, and displacement of families and businesses, has major impacts on property and mortgage markets.

The disruption of a family’s regular flow of income and payments, as well as substantial loss in property value, can trigger mortgage default. It affects not only homeowners who have seen their homes destroyed, but also workers who no longer have a job to go to. After last year’s trio of hurricanes – Harvey, Irma, and Maria – serious delinquency rates on home mortgages tripled in the Houston and Cape Coral metro areas, and quadrupled in San Juan. The Tubbs wildfire caused serious delinquency rates to spike by 50 percent in the Santa Rosa, CA area. (Figure 1) While payment forbearance programs provided by FHA, lenders, and secondary market investors can lessen the financial stress, local default rates still rise.

The significant loss of housing stock also affects the cost of shelter in affected neighborhoods, especially those that had already had a severe shortage of homes. Take the Tubbs fire as an example: More than 3,200 homes were destroyed, or about 2 percent of the single-family stock in Sonoma County. And for some affected neighborhoods, the loss was close to 100 percent.

Families that were displaced by the fire add to the demand for shelter in the metro area. The increase in demand coupled with the reduction in housing stock translates into upward pressure on prices and rents for undamaged homes. CoreLogic’s rent data have documented the increases: In Santa Rosa, single-family rents have risen at a double-digit pace after the Tubbs fire, and rent growth in the Houston and Cape Coral metro areas accelerated after hurricanes Harvey and Irma. (Figure 2)

Based on what we have seen after prior natural disasters, communities affected this year by wildfires, hurricanes, mudslides, and volcanic eruptions will likely experience an increase in mortgage default and shelter costs.

Dr. Frank Nothaft
Executive, Chief Economist, Office of the Chief Economist

Frank Nothaft holds the title executive, chief economist for CoreLogic. He leads the Office of the Chief Economist and is responsible for analysis, commentary and forecasting trends in global real estate, insurance and mortgage markets.

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2 CalFire reported 5,836 structures destroyed as a result of the Tubbs fire. Many properties had more than one structure on them and some were nonresidential, so the total number of homes destroyed was less than the number of structures. The 2016 American Community Survey reported 153,000 occupied one-family homes and mobile homes in Sonoma County.
U.S. Homebuyers’ “Typical Mortgage Payment” Up 15 Percent Year Over Year – More Than Double the Median Sale Price’s Gain

Mortgage Rate Forecasts Suggest a 9 Percent Gain in Buyers’ Mortgage Payments by Next June

By Andrew LePage

Andrew LePage joined CoreLogic in 2015 as a research analyst working in the Office of the Chief Economist. Previously, Andrew was an analyst and writer for DQNews, a partner of DataQuick (acquired by CoreLogic in 2014). Andrew provided real estate data and trend analysis to journalists and issued a variety of housing market reports to the news media on behalf of DataQuick. Prior to that he was a staff writer at the Sacramento Bee newspaper covering residential real estate topics in the capital region and across California. He continues to monitor California’s housing market for CoreLogic in two monthly data briefs detailing trends in Southern California and the San Francisco Bay Area.

While the U.S. median sale price has risen by just over 6 percent over the past year the principal-and-interest mortgage payment on that median-priced home has increased more than 15 percent. Moreover, the CoreLogic Home Price Index Forecast suggests U.S. home prices will be up 4.7 percent year-over-year in June 2019, while some mortgage rate forecasts suggest the mortgage payments homebuyers will face at that point will have risen almost twice as much.

One way to measure the impact of inflation, mortgage rates and home prices on affordability over time is to use what we call the “typical mortgage payment.” It’s a mortgage-rate-adjusted monthly payment based on each month’s U.S. median home sale price. It is calculated using Freddie Mac’s average rate on a 30-year fixed-rate mortgage with a 20 percent down payment. It does not include taxes or insurance. The typical mortgage payment is a good proxy for affordability because it shows the monthly amount that a borrower would have to qualify for to get a mortgage to buy the median-priced U.S. home.

The U.S. median sale price in June 2018—$233,732—was up 6.3 year over year, while the typical mortgage payment rose 15.1 percent because of a .67-percentage-point rise in mortgage rates over that one-year period.

A consensus forecast suggests mortgage rates will rise by about 0.36 percentage points between June 2018 and June 2019. The CoreLogic HPI Forecast suggests the median sale price will rise 2.2 percent in real terms over that same period (or 4.7 percent in nominal terms). Based on these projections, the inflation-adjusted typical monthly mortgage payment would rise from $955 in June 2018 to $1,018 by June 2019, a 6.5 percent year-over-year gain (Figure 1). In nominal terms the typical mortgage payment’s year-over-year gain would be 9.2 percent.

An IHS Markit forecast calls for real disposable income to rise by less than 3 percent over the next year, meaning homebuyers would see a larger chunk of their incomes devoted to mortgage payments.

When adjusted for inflation the typical mortgage payment puts homebuyers’ current costs in the proper historical context. Figure 2 shows that while the inflation-adjusted typical mortgage payment has trended higher in recent years, in June 2018 it remained 25.3 percent below the all-time peak of

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1 Based on the average mortgage rate forecast from Freddie Mac, Fannie Mae, Mortgage Bankers Association, National Association of Realtors, National Association of Home Builders and IHS Markit.

2 Inflation adjustments made with the U.S. Bureau of Labor Statistics Consumer Price Index (CPI), Urban Consumer – All Items.

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Andrew LePage
Research Analyst

Based on the average mortgage rate forecast from Freddie Mac, Fannie Mae, Mortgage Bankers Association, National Association of Realtors, National Association of Home Builders and IHS Markit. Inflation adjustments made with the U.S. Bureau of Labor Statistics Consumer Price Index (CPI), Urban Consumer – All Items.
Kilauea’s Lava Lessons
Understanding the Risk a Volcano Poses

By Maiclaire Bolton Smith

The Hawaiian Islands are a lush tropical paradise with palm trees, beaches, and breathtaking active volcanoes. Their very makeup intrigues many, but it is also the source of potential catastrophe. The Island of Hawai’i, commonly referred to as the Big Island, is home to five volcanoes, including Mt. Kilauea.

Kilauea is one of the world’s most active volcanoes which has been erupting on and off over the last several thousands of years. Kilauea’s current eruption has made headlines over the past few months, but this eruption is actually part of the ongoing eruption which began in 1983.

When many people think of volcanoes they think of steep, explosive stratovolcanoes like Mt. St. Helens in Oregon or Mt. Pinatubo in the Philippines—both of which have had some of the most destructive eruptions in recent history. In contrast, the Hawaiian volcanoes are a different variety known as shield volcanoes which are characterized by their gentle sloping sides and broad domes. The eruptions are also very different in the Hawaiian shield volcanoes, where the lava is very fluid and basaltic as opposed to pyroclastic.

On May 17, 2018, Kilauea experienced an explosive eruption. This type of eruption, while not entirely unexpected, is uncommon with these types of volcanoes. The flowing lava came in contact with the water table, which in turn generated the explosive eruption, sending ash plumes into the air and impacting air quality.

Even though catastrophic eruptions are not common with Mt. Kilauea, the nature of the flowy basaltic lava does pose a great risk to homes and businesses in its path. CoreLogic® analyzed the area impacted to understand the potential damage.

The area impacted by the lava flow is a small, remote part of the Big Island of Hawaii, far from the popular cities of Kona and Hilo (Figure 1). The U.S. Geological Survey (USGS) monitors the volcanoes and has identified a “thermal zone” which has potential for risk. Within the entire thermal zone, there are 5,902 houses.

Continued on page 5
Charitable Funds Tax Credit: States Seek Loopholes in the Federal SALT Deduction Cap

The Proposed Regulations are Subject to a 45-Day Comment Period Ending October 11, 2018

By George King

George King
Data Analysis Professional

George King has been a member of the CoreLogic Tax Services division for more than 25 years. In his role, George serves as a legislative analyst for the company. He is responsible for ensuring that the tax services team is aware of new and changing tax laws. He studies the impact of tax laws to our business and considers potential compliance implications of the legislation and regulations.

Any change to tax policy brings opposition and endorsement from those who prosper and those negatively affected. The Tax Cuts and Jobs Act (TCJA) enacted late last year was no exception. The law reduced the state and local property, income, and sales taxes on a federal tax return to $10,000—previously, there was no limit. The State and Local Tax (SALT) deduction is set to boost the government revenue by $700 billion in 2018, reaching $90 billion by 2024.

Historically, the SALT deduction has been a valuable tax break for those with high-value properties, those in states with high property taxes where middle-class homes can easily exceed the threshold and those with secondary homes leading to larger property tax bills. As a result, many property owners flocked to their nearest tax office to prepay their 2018 taxes in December and maximize one full SALT deduction on 2017 tax returns. According to data from CoreLogic, pre-payment activity in California grew by 90 percent, while on the East Coast, prepayments jumped by 300 percent in New Jersey and 191 percent in Massachusetts.

These prepayments came despite an IRS advisory opinion, which stated that prepaying 2018 real property taxes in 2017 may be deductible only under certain circumstances.

Recently, four states (Connecticut, Maryland, New Jersey and New York) filed a federal lawsuit to strike down the cap on SALT deductions and are asking the court to declare the cap unconstitutional. While the lawsuit pending in court, states continue to look for loopholes to the law to help constituents offset the deduction cap.

A tax credit from charitable funds appears to be the favored solution. In March, the New York State Budget amended the tax law to facilitate two specific changes: to authorize school districts, counties, and New York City to establish charitable funds and to provide a credit against real property taxes, up to 95 percent of taxpayer contributions to such funds. These provisions are already in effect. Connecticut and New Jersey have since passed similar charitable funds bills, which both went into effect in early July.

California, Illinois, Nebraska, Virginia and Washington also introduced legislation, along with Oregon and Rhode Island, while legislation in Nebraska, Virginia and Washington did not advance. Only bills in California, Illinois and Rhode Island are considered pending at this point. Of these three measures, Illinois appears to be the only state providing for a property tax credit.

However, the federal government is following these advancements and attempts closely, working on ways to shut down potential state workaround. In late May, the IRS announced that it, along with the U.S. Department of the Treasury, would issue guidance on payments made in exchange for state and local tax credits. In its Notice of Intent, the IRS proposed regulations to address the deductibility of state and local tax payments for federal income tax purposes. Additionally, the notice (Notice 2018-54) reinforced that federal law controls the characterization of payments for federal income tax purposes regardless of how state laws may characterize such payments.

On August 23, 2018, the IRS announced proposed regulations that were then published in the Federal Register days later. Now cited as Document 2018-18377, the rule holds that all contributions claimed for purposes of charitable deduction must be reduced by the amount of any corresponding credits received. This clarification would render the SALT workaround “Charitable Fund” legislation ineffective in mitigating the $10K SALT cap.

For example, if a state grants a 70 percent state tax credit and the taxpayer pays $1,000 to an eligible entity, the taxpayer receives a $700 state tax credit. The taxpayer must then reduce the $1,000 contribution by the $700 state tax credit, leaving an allowable contribution deduction of $300 on the taxpayer’s federal income tax return.

The proposed regulations are subject to a 45-day comment period ending October 11, 2018. If they were to pass, such a ruling would be bad news for those who itemize their tax deductions and may consider moving out of high property tax areas. While for lenders, these regulations will help to mitigate the anticipated mortgage loan administration challenges and complexities of SALT-cap mitigating property tax credits as they determine the correct escrow obligations for borrowers from year to year.

Any change to tax policy can be a headache for lenders and borrowers alike. In the meantime, both parties continue to face uncertainty as the federal and state governments continue to battle out the SALT deduction and its proposed tax credit loopholes.
A total of 637 homes in this area have
According to the most recent report by
at high risk around $239 million. It is important
are in the high-risk area. The area impacted is
covered by standard homeowner policies as the
insurance for the lost homes. Many
have questioned the insurance coverage for
homes lost to lava flow in Hawaii. The insurance
commissioner of Hawaii Gordon Ito had commented on May 9 that most homes are
covered by standard homeowner policies as the
structure was lost to fire—but this is not always the case as some policies have exclusions for lava.
Lava has yet to stop flowing in Hawaii, and if the past 35 years have been telling, it is unlikely to suddenly cease. While much of the lava is running off into the ocean, growing the island bit by bit, the risk remains for those homes and homeowners yet unaffected. Having a strong grasp on that risk is paramount to make smart decisions when it comes to selecting a policy which protects and restores homes.

Kilauea continued from page 3
homes at potential risk. Of these, 1,029 homes
are in the high-risk area. The area impacted is
called the Leilani Estates. The average home
value in this region is $230 thousand which
puts the total value of residential properties
at high risk around $239 million. It is important
to note that a high-risk property does not
guarantee that it will burn, but knowing the
weight of the risk is essential for insurance
companies and homeowners.

According to the most recent report by
Hawaii County Civil Defense on June 23,
2018, the inflation-adjusted U.S. median
sale price in June 2006 was $248,312 (or
$199,750 in 2006 dollars), compared with a
June 2018 median of $233,732.

FIGURE 2. NATIONAL HOMEBUYERS’ “TYPICAL MORTGAGE PAYMENT”
Inflation-Adjusted Monthly Mortgage Payment That Buyers Commit To

<table>
<thead>
<tr>
<th>Jan-00</th>
<th>Jan-02</th>
<th>Jan-04</th>
<th>Jan-06</th>
<th>Jan-08</th>
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<th>Jan-12</th>
<th>Jan-14</th>
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</tbody>
</table>

Source: CoreLogic, IHS Markit, Freddie Mac, Fannie Mae; and IHS, National Association of Home Builders, Mortgage Bankers Association and National Association of Realtors for averaging mortgage rate forecasts. Chart forecast period begins Jul-18.

Kilauea continued from page 3

In the News

Orlando Sentinel – September 25, 2018
US home prices rise at slowest pace in nearly a year
The S&P CoreLogic Case-Shiller 20-city home price index increased 5.9 percent in July compared with a year earlier, down from a 6.4 percent annual gain the previous month.

Realtor.com – September 24, 2018
Housing Slowdown? Softening? Whatever You Call It, It’s Real and It’s Here
Nashville: The median list price on realtor.com in the country music hot spot was about $356,000 in August, representing a 1% dip from the previous year. But the median sale price climbed 7.9% year over year, to $286,000 in June, according to the latest CoreLogic data—a slower price increase than the 11.3% rise of the previous year.

FOX Business – September 23, 2018
Homeowner equity on the rise
According to a recent study from CoreLogic, U.S. homeowners with mortgages saw equity increase last quarter by more than 12 percent, or $981 billion, year-over-year. Meanwhile, the number of houses with negative equity — when the amount an owner owes on a property exceeds its market value — fell by 20 percent during the second quarter from the year prior, to 2.2 million homes.

Las Vegas Review Journal – September 21, 2018
Las Vegas rent prices growing at 2nd-fastest pace in nation
Las Vegas’ rate was No. 2 among the 20 metro areas listed in report, behind Orlando, Florida, at 6.4 percent. ... Until it was bumped aside, Southern Nevada’s house-rental prices had been climbing at the fastest rate in the country through the first half of the year, CoreLogic reported.

USA Today – September 16, 2018
Lack of flood insurance heaps misery on homeowners slammed by Hurricane Florence
An estimated quarter of a million homes in North Carolina are projected to be affected by Florence, which has caused flash flooding and record rain amounts across the state, according to CoreLogic, a property analytics company.
"With increased interest rates and home prices, the CoreLogic Home Price Index is rising at a slower rate than it was a year ago. While markets in the western part of the country continue to experience rapid home-price growth, many of those metros are overvalued, and will likely experience a slowdown soon."

Dr. Frank Nothaft,
chief economist for CoreLogic
Due to last year’s hurricane season, Florida and Texas experienced increases in serious delinquency rates over the past year. Neighborhoods impacted by similar disasters in 2018 should also expect to see a spike in delinquencies in the coming year. With storms and wildfires currently impacting multiple areas of the country, homeowners, lenders and servicers should remain vigilant of potential impacts, particularly those in California, Hawaii and the Rocky Mountain and Gulf Coast states.”

Frank Martell, president and CEO of CoreLogic
Negative equity levels continue to drop across the US with the biggest declines in areas with strong price appreciation. Further, the relatively low level of shadow inventory contributes to the chronic shortage of housing supply and price increases in many markets.”

Frank Martell,
president and CEO of CoreLogic
### Variable Descriptions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Sales</strong></td>
<td>The total number of all home-sale transactions during the month.</td>
</tr>
<tr>
<td><strong>Total Sales 12-Month sum</strong></td>
<td>The total number of all home-sale transactions for the last 12 months.</td>
</tr>
<tr>
<td><strong>Total Sales YoY Change 12-Month sum</strong></td>
<td>Percentage increase or decrease in current 12 months of total sales over the prior 12 months of total sales.</td>
</tr>
<tr>
<td><strong>New Home Sales</strong></td>
<td>The total number of newly constructed residential housing units sold during the month.</td>
</tr>
<tr>
<td><strong>New Home Sales Median Price</strong></td>
<td>The median price for newly constructed residential housing units during the month.</td>
</tr>
<tr>
<td><strong>Existing Home Sales</strong></td>
<td>The number of previously constructed homes that were sold to an unaffiliated third party. DOES NOT INCLUDE REO AND SHORT SALES.</td>
</tr>
<tr>
<td><strong>REO Sales</strong></td>
<td>Number of bank owned properties that were sold to an unaffiliated third party.</td>
</tr>
<tr>
<td><strong>REO Sales Share</strong></td>
<td>The number of REO Sales in a given month divided by total sales.</td>
</tr>
<tr>
<td><strong>REO Price Discount</strong></td>
<td>The average price of a REO divided by the average price of an existing home sale.</td>
</tr>
<tr>
<td><strong>REO Pct</strong></td>
<td>The count of loans in REO as a percentage of the overall count of loans for the reporting period.</td>
</tr>
<tr>
<td><strong>Short Sales</strong></td>
<td>The number of short sales. A short sale is a sale of real estate in which the sale proceeds fail short of the balance owed on the property's loan.</td>
</tr>
<tr>
<td><strong>Short Sales Share</strong></td>
<td>The number of Short Sales in a given month divided by total sales.</td>
</tr>
<tr>
<td><strong>Short Sale Price Discount</strong></td>
<td>The average price of a Short Sale divided by the average price of an existing home sale.</td>
</tr>
<tr>
<td><strong>Short Sale Pct</strong></td>
<td>The count of loans in Short Sale as a percentage of the overall count of loans for the month.</td>
</tr>
<tr>
<td><strong>Distressed Sales Share</strong></td>
<td>The percentage of the total sales that were a distressed sale (REO or Short Sale).</td>
</tr>
<tr>
<td><strong>Distressed Sales Share (sales 12-Month sum)</strong></td>
<td>The sum of the REO Sales 12-month sum and the Short Sales 12-month sum divided by the total sales 12-month sum.</td>
</tr>
<tr>
<td><strong>HPI MoM</strong></td>
<td>Percent increase or decrease in HPI single family combined series over a month ago.</td>
</tr>
<tr>
<td><strong>HPI YoY</strong></td>
<td>Percent increase or decrease in HPI single family combined series over a year ago.</td>
</tr>
<tr>
<td><strong>HPI MoM Excluding Distressed</strong></td>
<td>Percent increase or decrease in HPI single family combined excluding distressed series over a month ago.</td>
</tr>
<tr>
<td><strong>HPI YoY Excluding Distressed</strong></td>
<td>Percent increase or decrease in HPI single family combined excluding distressed series over a year ago.</td>
</tr>
<tr>
<td><strong>HPI Percent Change from Peak</strong></td>
<td>Percent increase or decrease in HPI single family combined series from the respective peak value in the index.</td>
</tr>
<tr>
<td><strong>90 Days + DQ Pct</strong></td>
<td>The percentage of the overall loan count that are 90 or more days delinquent as of the reporting period. This percentage includes loans that are in foreclosure or REO.</td>
</tr>
<tr>
<td><strong>Stock of 90+ Delinquencies YoY Chg</strong></td>
<td>Percent change year-over-year of the number of 90+ day delinquencies in the current month.</td>
</tr>
<tr>
<td><strong>Foreclosure Pct</strong></td>
<td>The percentage of the overall loan count that is currently in foreclosure as of the reporting period.</td>
</tr>
<tr>
<td><strong>Percent Change Stock of Foreclosures from Peak</strong></td>
<td>Percent increase or decrease in the number of foreclosures from the respective peak number of foreclosures.</td>
</tr>
<tr>
<td><strong>Pre-foreclosure Filings</strong></td>
<td>The number of mortgages where the lender has initiated foreclosure proceedings and it has been made known through public notice (NOD).</td>
</tr>
<tr>
<td><strong>Completed Foreclosures</strong></td>
<td>A completed foreclosure occurs when a property is auctioned and results in either the purchase of the home at auction or the property is taken by the lender as part of their Real Estate Owned (REO) inventory.</td>
</tr>
<tr>
<td><strong>Negative Equity Share</strong></td>
<td>The percentage of mortgages in negative equity. The denominator for the negative equity percent is based on the number of mortgages from the public record.</td>
</tr>
<tr>
<td><strong>Negative Equity</strong></td>
<td>The number of mortgages in negative equity. Negative equity is calculated as the difference between the current value of the property and the origination value of the mortgage. If the mortgage debt is greater than the current value, the property is considered to be in a negative equity position. We estimate current UPB value, not origination value.</td>
</tr>
<tr>
<td><strong>Months’ Supply of Distressed Homes (total sales 12-Month avg)</strong></td>
<td>The months it would take to sell off all homes currently in distress of 90 days delinquency or greater based on the current sales pace.</td>
</tr>
<tr>
<td><strong>Price/Income Ratio</strong></td>
<td>CoreLogic HPI™ divided by Nominal Personal Income provided by the Bureau of Economic Analysis and indexed to January 1976.</td>
</tr>
<tr>
<td><strong>Conforming Prime Serious Delinquency Rate</strong></td>
<td>The rate serious delinquency mortgages which are within the legislated purchase limits of Fannie Mae and Freddie Mac. The conforming limits are legislated by the Federal Housing Finance Agency (FHFA).</td>
</tr>
<tr>
<td><strong>Jumbo Prime Serious Delinquency Rate</strong></td>
<td>The rate serious delinquency mortgages which are larger than the legislated purchase limits of Fannie Mae and Freddie Mac. The conforming limits are legislated by the Federal Housing Finance Agency (FHFA).</td>
</tr>
</tbody>
</table>
MORE INSIGHTS

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