

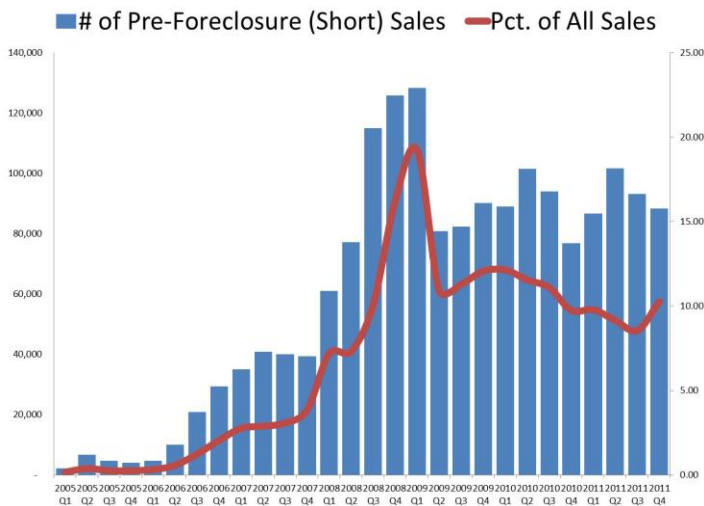
Historical Short Sale Trends

Short sales, where a distressed property (often in foreclosure) is sold for less than what is owed on the mortgage, have long been viewed as an elegant solution to the nation's foreclosure problem — at least in theory.

A short sale, in theory, provides a win-win-win for the buyer, bank and even the seller. The buyer purchases a house they want at a price they can afford, the bank gets the best price for its distressed asset, and the seller walks away from a mountain of debt, free to get a fresh start

But short sales have never quite lived up to the hype, probably because what works well in theory does not always work well in practice. Sales of properties in the foreclosure process, or pre-foreclosure sales, started to spike in late 2008 and early 2009. The quarterly peak was more than 128,000 in the first quarter of 2009.

Then came a new presidential administration with a new approach to the foreclosure problem and a sharp drop in pre-foreclosure sales — which are typically short sales.

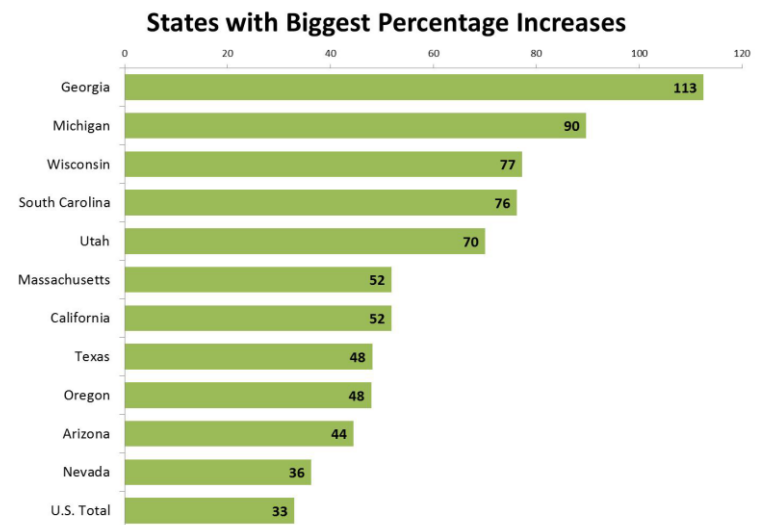


Since the second quarter of 2009 and through the fourth quarter of 2011, pre-foreclosure sales have averaged about 89,500 per quarter, with a couple spikes above 100,000: in the second quarter of 2010 and in the second quarter of 2011.

But a look at early 2012 pre-foreclosure sales data exclusively from RealtyTrac — never before released — suggests that change is afoot when it comes to short sales.

Shift Toward Short Sales

In January 2012 there were more than 35,000 pre-foreclosure sales nationwide, on pace for more than 105,000 pre-foreclosure sales for the first quarter, which would be the highest quarterly total since the peak back in the first quarter of 2009.



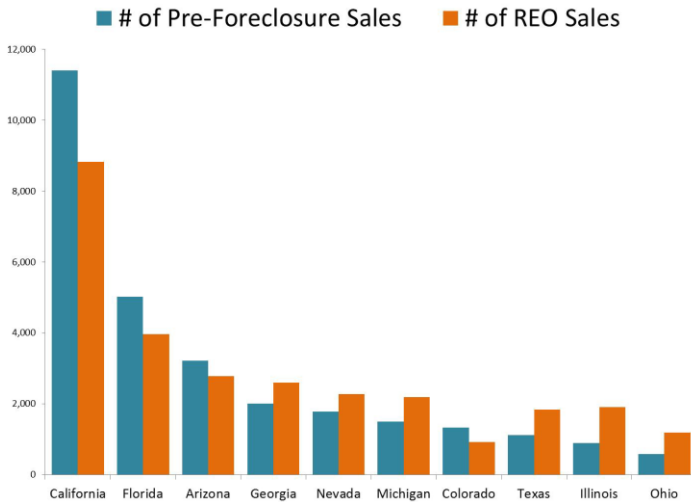
January pre-foreclosure sales are actually down slightly from a revised December number of more than 37,000, indicating that the shift toward short sales may have even begun late last year. But there's no doubt the trend is higher from a year ago. January's pre-foreclosure sales total is up 33 percent from January 2011, and the increases are significantly higher in some states — a more than 100 percent increase in Georgia, and a more than 50 percent increase in California, Massachusetts and Michigan, among others.

In addition to the eye-popping increases in pre-foreclosure sales in some states, the shift toward short sales becomes apparent when comparing pre-foreclosure sales numbers to bank-owned (REO) sales numbers. In the past, REO sales consistently outnumbered pre-foreclosure sales.

Although that continues to be true nationwide, the gap is closing, with only about 2,600 more REO sales than pre-foreclosure sales across the country in January 2012.

And in 12 states, including California, Florida, Arizona, New York and New Jersey, pre-foreclosure sales actually outnumbered REO sales in January 2012.

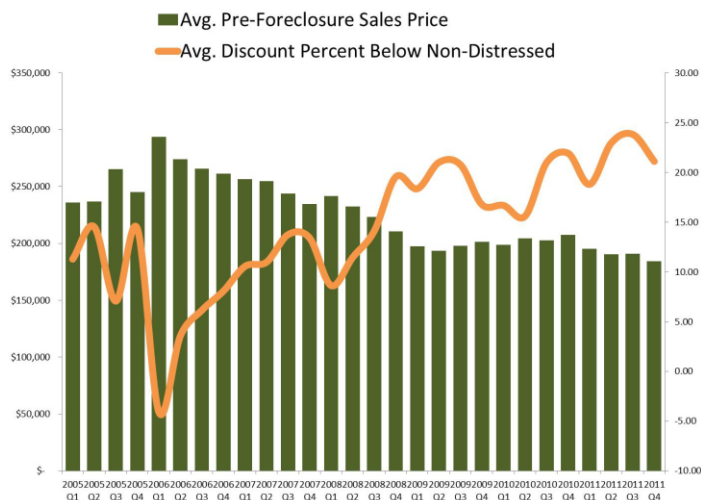
And in many other states the gap between pre-foreclosure sales and REO sales is shrinking, indicating that lenders are viewing short sales more favorably when compared to the alternative of foreclosure — followed by maintaining and marketing an REO for sale.



Aggressive Short Sale Pricing

Further evidence of this change in stance by the lenders is the more aggressive pricing in pre-foreclosure sales. It appears that lenders are finally realizing short sales will sell faster if they are priced correctly.

The average price of a pre-foreclosure sale property nationwide was \$184,221 in the fourth quarter of 2011, down 3.45 percent from the previous quarter and down 11.26 percent from the fourth quarter. While dropping prices are never a great trend in a housing market, they may be necessary in some markets to attract buyers.



This trend in lower sales prices for short sales continued in January, when the average pre-foreclosure sales price was \$174,120, down 4 percent from December and down 10 percent from January 2011.

Not surprisingly, a lower average price for short sales is also resulting in a bigger discount when compared to the average sales prices of non-distressed homes. In January, the average sales price of a pre-foreclosure home was 21 percent below the average price of a home not in foreclosure, compared to an average discount of 20 percent in December and an average discount of 17 percent in January 2011.

In states where the pre-foreclosure sales discount is above the national average of 21 percent, lenders may be more aggressively approving short sales.

States with Biggest Short Sale Discounts

State	Avg Pre-Foreclosure Sales Price	Avg Pre-Foreclosure Discount %
Massachusetts	\$203,764	40.86
Missouri	\$80,476	35.51
California	\$248,677	29.93
Indiana	\$84,726	29.82
Georgia	\$114,947	29.31
Maryland	\$200,794	29.19
Wisconsin	\$121,773	28.40
New Jersey	\$222,524	28.26
Virginia	\$227,729	26.31
Arizona	\$119,216	25.66

The good news for lenders is that even with the lower prices and higher average discounts for short sales, they're still getting more out of a pre-foreclosure sale than an REO sale, by a significant amount.

The average price of a bank-owned property nationwide in January was \$145,597, nearly \$30,000 below the average sales price of a pre-foreclosure property and 34 percent below the average sales price of a non-distressed property.

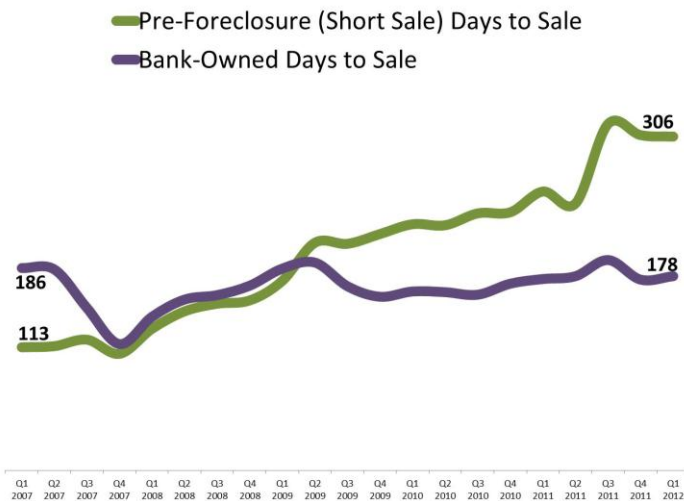
The more aggressive pricing on pre-foreclosure sales is not only allowing lenders to sell more short sales, it's also allowing those short sales to happen more quickly.

Time to Sell Turning a Corner

The average number of days it takes a pre-foreclosure property to sell has slowly started to turn the corner for the last two quarters after hitting a peak of 318 days in the third quarter of 2011. Please note, this is the average number of days from the time a property starts the foreclosure process to when it sells as a pre-foreclosure.

That average time to sell a pre-foreclosure has increased nearly threefold since the first quarter of 2007, when it took an average of 113 days to sell a pre-foreclosure property.

Meanwhile, the average time to sell a bank-owned property has remained relatively consistent during that same time period, even trending down slightly from 186 days in Q1 2007 to 178 days in Q1 2012.

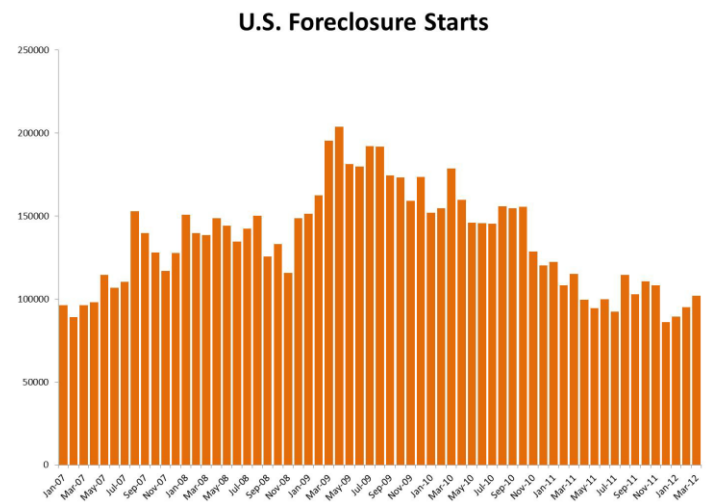


Address-level details for the current inventory of pre-foreclosure homes (potential short sales) and bank-owned homes nationwide can be accessed on the RealtyTrac website by RealtyTrac members. A [7-day free trial membership](#) is available to those signing up for the first time.

Foreclosure Starts Trending Higher

The January pre-foreclosure sales numbers clearly indicate an increase in short sales for the first month of the year, but how do we know that's not just a one-month anomaly?

First, we've also peeked at the February pre-foreclosure sales numbers and they are trending similarly to January.



But secondly, and more importantly, foreclosure activity trends in the first quarter show that a growing number of properties are starting the foreclosure process, meaning that a growing number of distressed homeowners are now more motivated to sell because the foreclosure clock has started ticking.

The most recent RealtyTrac foreclosure activity numbers from March show that more than 100,000 properties nationwide started the foreclosure process during the month, an increase of 7 percent from the previous month and the first time foreclosure starts had exceeded 100,000 since November 2011.

March foreclosure starts were still down 11 percent from a year ago, but March was the third straight month where foreclosure starts increased from the previous month. And the trend is not just in a few states; 31 states posted monthly increases in foreclosure starts in March.

An earlier surge in foreclosure starts hit from August through November 2011. Foreclosure starts averaged 109,000 per month during that four-month period, up from 96,000 per month in the previous four months.

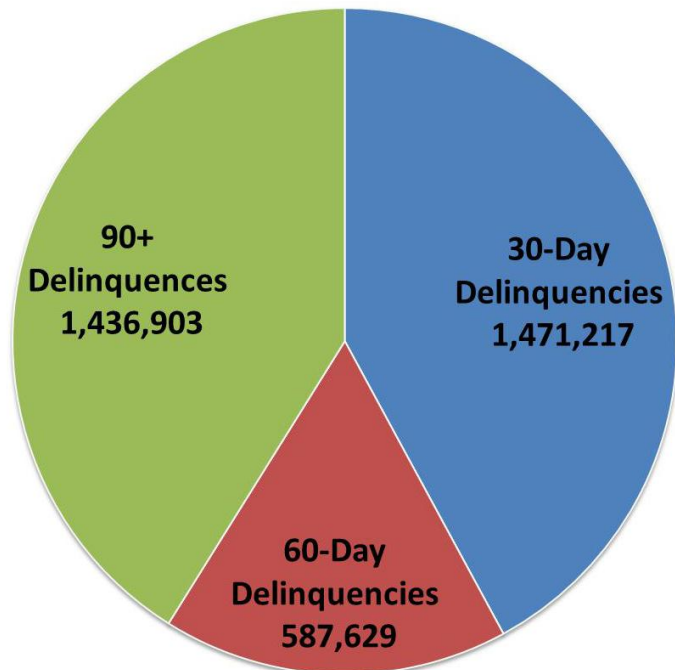
Recent trends in foreclosure starts (as well as foreclosure completions, or REOs) are available down to the state, county, city and zip code level in the RealtyTrac Stats & Trend Center: <http://www.realtytrac.com/trendcenter/>.

Large Pools of Potential Short Sales

Behind the new wave of foreclosure starts — many of which will become short sales as lenders are more reluctant to proceed with an increasingly complex and costly foreclosure process — are two much larger pools of potential short sales.

The first is delinquent loans that have not yet started the foreclosure process. According to the Mortgage Bankers Association, there are nearly 3.5 million delinquent mortgages nationwide in this category.

U.S. Delinquent Mortgages



Source: Mortgage Bankers Association

A sizeable portion of these delinquent mortgages are seriously delinquent, meaning that the homeowner is more than 90 days late on mortgage payments. These seriously delinquent loans are at high risk for entering foreclosure.

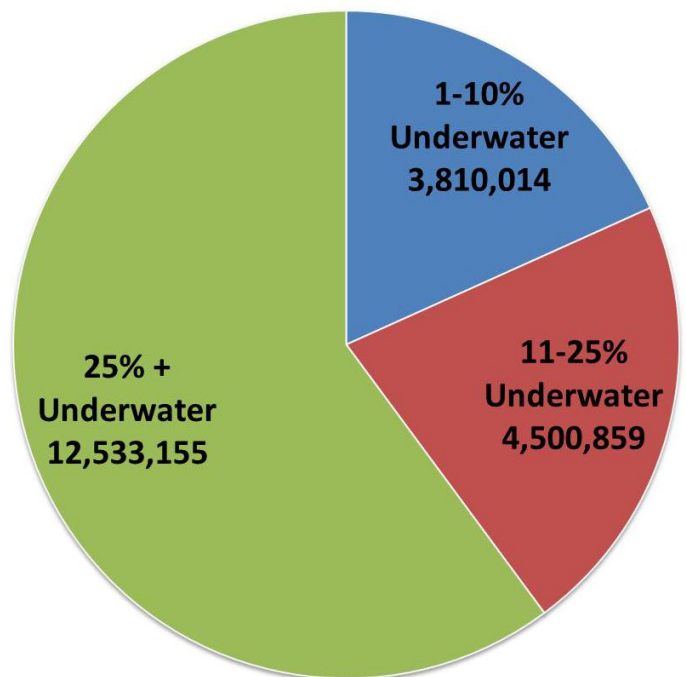
Our analysis of Notice of Default data in California showed that the average default amount on Notices of Default filed in 2011 was nearly \$42,000, up from an average default amount of \$17,000 for Notices of Default filed in 2009. The \$42,000 comfortably calculates out to at least a

year's worth of missed mortgage payments, demonstrating that lenders are waiting much longer to start the foreclosure process, resulting in a backlog of distressed loans that are seriously delinquent.

These delinquent loans represent prime potential short sale opportunities, particularly once the foreclosure process has started and the homeowner realizes that he or she may not be able to keep living in the property indefinitely without making mortgage payments.

The second, even larger, pool of potential future short sales is underwater homeowners.

U.S. Underwater Mortgages



Our analysis of 45 million outstanding mortgages nationwide shows that 28 percent are seriously underwater, meaning that they owe at least 25 percent more on their mortgage than what their home is worth. Another 8.3 million homeowners are at least somewhat underwater.

Even if these homeowners aren't struggling to make mortgage payments and therefore are at low risk for foreclosure, if they need to sell sometime in the next five years it's likely they'll need to sell via short sale. #



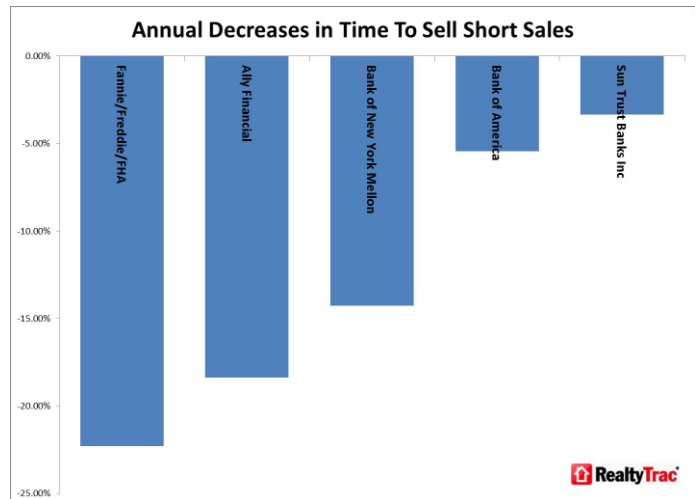
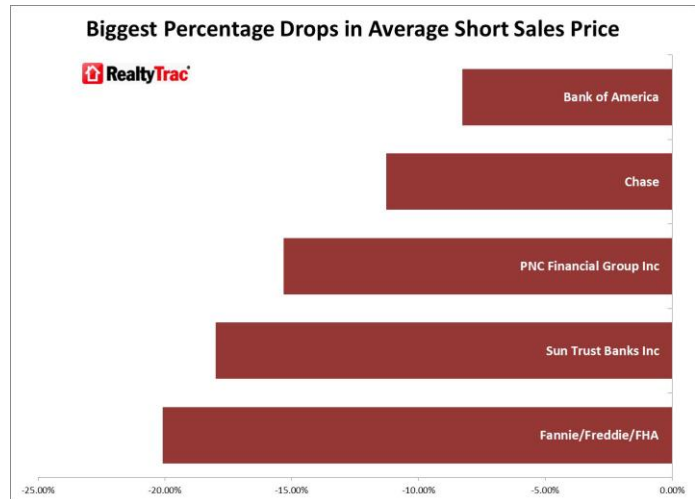
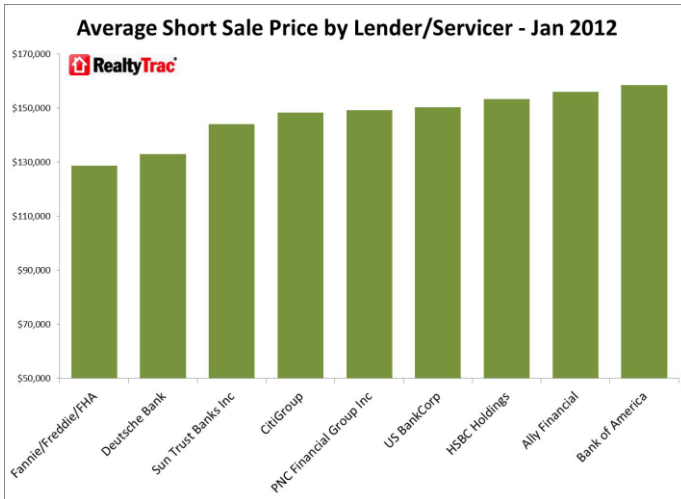
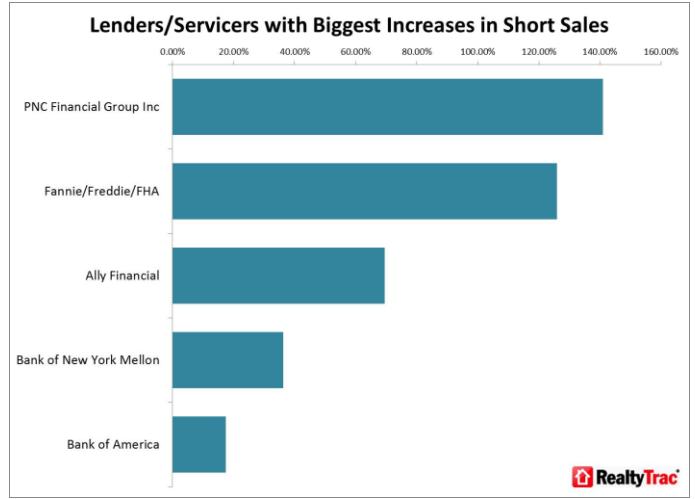
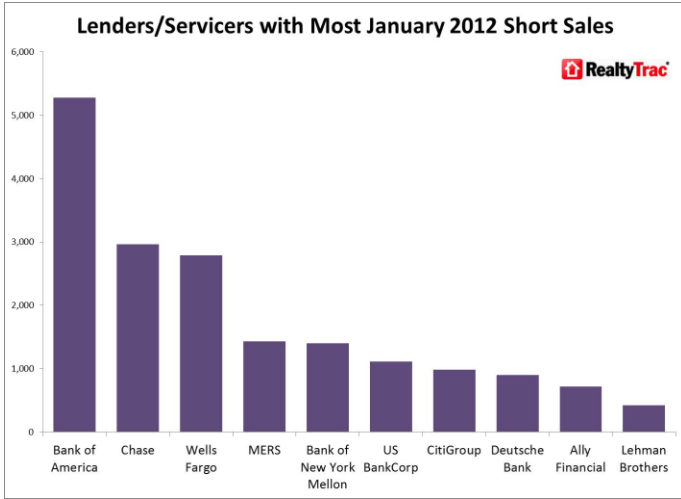
Appendix A: January 2012 Pre-Foreclosure Sales Data by State

January 2012 Pre-Foreclosure (Short) Sales							
State	# of Pre-Foreclosure (Short) Sales	%Δ from Dec 11	%Δ from Jan 11	% of All Sales	Avg Sales Price	Avg Discount %	# of REO Sales
U.S. Total	35,816	-4.00	33.00	13.84	\$174,120	21.28	38,443
Alabama	106	-3.64	-5.36	4.28	\$110,699	17.40	233
Alaska	32	68.42	45.45	9.91	N/A	N/A	18
Arizona	3,217	2.55	44.45	23.66	\$119,216	25.66	2,776
Arkansas	20	-28.57	-42.86	2.13	\$110,502	28.06	75
California	11,397	-0.45	51.90	29.21	\$248,677	29.93	8,821
Colorado	1,333	18.17	-6.91	20.10	\$182,593	24.74	911
Connecticut	198	-8.33	65.00	9.47	\$225,601	20.88	193
Delaware	57	-1.72	200.00	6.65	\$172,736	28.50	155
District of Columbia	20	66.67	-68.25	3.94	\$209,833	55.50	22
Florida	5,014	-8.27	19.81	13.88	\$114,943	24.24	3,959
Georgia	2,000	0.76	112.54	20.61	\$114,947	29.31	2,596
Hawaii	44	-8.33	-20.00	4.40	\$335,000	36.23	83
Idaho	196	19.51	-8.41	15.59	\$120,428	22.23	109
Illinois	896	-12.59	30.23	9.56	\$148,199	25.26	1,907
Indiana	388	9.60	-4.20	13.07	\$84,726	29.82	328
Iowa	76	-7.32	65.22	7.40	\$94,600	35.43	130
Kentucky	55	12.24	292.86	4.14	\$89,312	41.87	143
Louisiana	60	-33.33	-11.76	3.24	\$122,186	29.01	224
Maryland	337	3.69	-56.29	6.39	\$200,794	29.19	348
Massachusetts	357	-19.78	51.91	8.40	\$203,764	40.86	475
Michigan	1,493	-3.86	89.71	15.23	\$104,199	2.92	2,182
Minnesota	228	-28.75	-27.16	7.96	\$168,948	8.94	542
Missouri	369	4.83	26.80	9.99	\$80,476	35.51	574
Nevada	1,777	-2.58	36.27	27.23	\$117,740	15.83	2,270
New Hampshire	72	-22.58	94.59	7.27	\$157,547	25.87	151
New Jersey	402	-15.72	-31.52	6.91	\$222,524	28.26	185
New Mexico	102	-1.92	45.71	9.12	N/A	N/A	68
New York	416	0.00	-13.33	5.05	\$343,637	22.08	117
North Carolina	217	-19.33	11.86	3.46	\$141,183	15.41	492
Ohio	586	-12.01	34.71	7.50	\$89,833	22.71	1,184
Oklahoma	131	11.97	-30.32	5.77	\$96,696	28.09	216
Oregon	395	-2.95	47.94	11.76	\$174,794	20.70	581
Pennsylvania	393	-17.78	24.37	5.36	\$128,841	25.08	608
Rhode Island	107	42.67	101.89	13.79	\$143,460	28.80	112
South Carolina	363	-3.20	76.21	8.79	\$143,813	15.27	392
Tennessee	130	14.04	-0.76	2.14	\$102,332	27.70	792
Texas	1,120	-16.73	48.15	5.55	\$84,182	N/A	1,836
Utah	364	-1.89	70.09	13.36	\$180,573	N/A	299
Virginia	489	-15.54	2.30	9.50	\$227,729	26.31	637
Washington	502	-27.98	34.22	9.21	\$223,672	17.52	1,042
Wisconsin	312	-20.20	77.27	10.23	\$121,773	28.40	472

Appendix B: January 2012 Pre-Foreclosure Sales Data for 50 Largest Metros

January 2012 Pre-Foreclosure (Short) Sales							
Metro Area	# of Pre-Foreclosure (Short) Sales	%Δ from Dec 11	%Δ from Jan 11	% of All Sales	Avg Sales Price	Avg Discount %	# of REO Sales
New York-Northern New Jersey-Long Island, NY-NJ-PA	622	-11.65	-24.42	6.05	\$320,115	29.37	209
Los Angeles-Long Beach-Santa Ana, CA	2,858	-6.02	22.29	29.23	\$331,369	28.35	1,859
Chicago-Naperville-Joliet, IL-IN-WI	907	-10.64	35.37	10.63	\$148,101	31.38	1,842
Dallas-Fort Worth-Arlington, TX	518	-16.59	75.59	7.94	\$88,959	N/A	678
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	265	-16.14	21.56	5.77	\$153,489	26.40	418
Houston-Sugar Land-Baytown, TX	263	-21.02	26.44	4.66	\$72,574	N/A	644
Washington-Arlington-Alexandria, DC-VA-MD-WV	481	-2.04	-33.56	8.67	\$251,369	33.28	555
Miami-Fort Lauderdale-Pompano Beach, FL	2,000	-2.30	47.38	17.27	\$126,035	29.19	1,380
Atlanta-Sandy Springs-Marietta, GA	1,799	4.05	120.47	22.38	\$116,539	31.24	2,257
Boston-Cambridge-Quincy, MA-NH	228	-23.75	46.15	8.11	\$222,366	41.57	284
San Francisco-Oakland-Fremont, CA	1,146	-4.10	86.95	27.27	\$316,814	36.24	849
Detroit-Warren-Livonia, MI	1,026	-5.87	68.75	15.73	\$107,267	1.71	1,524
Riverside-San Bernardino-Ontario, CA	2,152	2.87	44.14	32.46	\$175,782	15.44	1,705
Phoenix-Mesa-Scottsdale, AZ	2,699	3.81	38.34	26.06	\$119,261	26.79	2,027
Seattle-Tacoma-Bellevue, WA	320	-33.75	37.93	10.87	\$239,438	26.37	668
Minneapolis-St. Paul-Bloomington, MN-WI	246	-25.68	-23.13	8.93	\$168,281	11.26	530
San Diego-Carlsbad-San Marcos, CA	886	-6.34	39.53	29.82	\$323,927	20.84	540
St. Louis, MO-IL	292	2.46	63.13	11.78	\$85,520	28.19	341
Tampa-St. Petersburg-Clearwater, FL	673	-4.67	9.08	12.03	\$103,934	17.49	512
Baltimore-Towson, MD	110	-10.57	-67.07	4.77	\$192,889	23.55	127
Denver-Aurora, CO	759	12.44	-11.12	22.00	\$181,726	28.79	541
Pittsburgh, PA	104	19.54	35.06	5.82	\$93,040	33.79	170
Portland-Vancouver-Beaverton, OR-WA	271	-0.37	59.41	12.22	\$197,867	20.09	440
Sacramento--Arden-Arcade--Roseville, CA	1,065	2.50	82.36	29.85	\$184,824	16.85	859
San Antonio, TX	105	-16.00	64.06	5.69	\$72,963	N/A	165
Orlando-Kissimmee, FL	542	-23.66	-17.00	14.35	\$112,344	14.91	515
Cincinnati-Middletown, OH-KY-IN	114	32.56	32.56	5.89	\$97,412	26.60	364
Cleveland-Elyria-Mentor, OH	142	-26.42	102.86	8.31	\$86,755	19.22	243
Kansas City, MO-KS	118	18.00	7.27	9.60	\$65,232	56.53	235
Las Vegas-Paradise, NV	1,501	-1.25	38.09	28.17	\$114,783	13.06	1,945
San Jose-Sunnyvale-Santa Clara, CA	434	-1.59	61.34	27.28	\$381,384	33.72	214
Columbus, OH	173	-1.70	31.06	11.42	\$107,900	25.17	150
Charlotte-Gastonia-Concord, NC-SC	134	-5.63	55.81	7.01	\$136,463	28.29	169
Indianapolis-Carmel, IN	244	23.86	45.24	15.32	\$78,638	37.26	203
Austin-Round Rock, TX	128	-18.47	40.66	5.90	\$107,093	0.80	133
Virginia Beach-Norfolk-Newport News, VA-NC	141	-21.23	127.42	10.44	\$156,987	28.95	146
Providence-New Bedford-Fall River, RI-MA	138	21.05	89.04	13.32	\$158,748	24.37	145
Nashville-Davidson--Murfreesboro--Franklin, TN	35	-18.60	-14.63	1.97	\$140,936	22.75	246
Milwaukee-Waukesha-West Allis, WI	98	-35.10	48.48	8.82	\$103,899	43.64	223
Jacksonville, FL	337	-3.16	56.74	17.65	\$106,720	22.41	271
Memphis, TN-MS-AR	53	8.16	-13.11	4.68	\$75,061	36.91	151
Louisville/Jefferson County, KY-IN	46	48.39	411.11	5.16	\$85,036	44.25	110
Richmond, VA	54	-6.90	-21.74	6.61	\$167,045	15.12	123
Oklahoma City, OK	71	24.56	-41.32	6.26	\$88,042	35.71	49
Hartford-West Hartford-East Hartford, CT	47	-20.34	62.07	6.78	\$196,686	10.74	59
New Orleans-Metairie-Kenner, LA	31	-45.61	-36.73	4.94	\$130,885	13.12	139
Raleigh-Cary, NC	25	-64.29	-24.24	4.00	\$185,383	2.10	27
Salt Lake City, UT	167	8.44	116.88	13.80	\$188,802	N/A	119
Tucson, AZ	242	-3.20	101.67	16.54	\$113,213	34.40	390
Honolulu, HI	22	10.00	-21.43	3.38	N/A	N/A	33

Appendix C: January 2012 Pre-Foreclosure Sales Data by Lender



For more detailed and historical foreclosure sales data available, go to <http://www.realtytrac.com/dataproductcenter/>