

Home Price Scenario Update

Steve Bergantino
+1 212 412 2164
steven.bergantino@barclays.com

Chun Li
+1 212 412 7951
chun.li@barclays.com

At the close of business on Friday July 20, 2012, we will be updating the macro scenarios in the non-agency RMBS calculator to incorporate changes to the base case and alternative home price projections of the Barclays Regional Home Price Model.

A key feature of the home price scenario update is noticeably stronger near-term appreciation for the boom/bust states of California, Florida, Arizona, and Nevada. Given the high percentage of non-agency mortgages in these states, the result is lower projected base case losses across all sectors of the non-agency market. Moreover, since the alternative scenarios are constructed to maintain a cone of HPA projections around the base case scenario, home price and loss projections improve across all scenarios (Severe Stress, Stress, Base Case, Recovery, & Strong Recovery). To include a stress scenario that does not move higher with the base case projection, we have added an additional scenario (Down 20%) that imposes a 20% decline in US home prices, independent of the other scenarios. The tables below highlight home price changes in key states and their effect on projected non-agency losses and loss-adjusted yields.

Updated Home Price Scenarios

Figure 1 displays online versus updated home price projections across scenarios for the US and key states. Looking at seasonally adjusted year-to-date home price appreciation, it appears that home prices in the bust states have troughed and are now growing faster than the national average. For example, according to the CoreLogic Aggregate HPI Index, January through May seasonally adjusted HPA for California is 5.1%. Year-to-date, appreciation in Florida and Arizona are even higher at 6% and 10.1%, respectively.

Updated base case projections reflect this improvement while maintaining a generally conservative bent, given the recent weakening in economic data. For example, the updated full-year 2012 base case HPA projection for California is 4.4%, which is lower than the observed year-to-date rate of 5.1% but up significantly from the -1.8% projection in the online scenarios. Similarly, the full-year 2012 base case HPA projection for Florida, which has experienced a sharp turnaround in home prices, is 6.8%, only marginally higher than the seasonally adjusted 6% already recorded, but far above the 1.2% projection in the online scenarios. The increase in near-term HPA projections is visible across scenarios as well as across bust states. The new Down 20% scenario, in contrast, presents a much more bearish alternative to the other scenarios.

Figure 1: Changes to HPA Scenarios for US and Key States

State	Act HPA Jan - May 2012 SA	Projections (% / year)							
		New				Online			
		2012	2013	2014	2015	2012	2013	2014	2015
Strong Recovery									
US	4.1	7.0	8.6	9.7	10.3	6.1	5.5	6.2	5.2
CA	5.1	10.7	10.8	10.0	11.4	7.1	5.2	3.3	3.5
FL	6.0	12.4	11.2	11.5	12.5	9.1	8.7	8.5	6.4
AZ	10.1	16.1	11.5	10.5	10.6	4.1	5.2	6.7	6.2
NV	3.7	9.2	12.7	12.1	11.5	6.1	7.4	6.8	6.0
Recovery									
US	4.1	5.7	6.8	7.9	5.9	3.4	3.9	6.6	5.2
CA	5.1	8.6	8.3	7.7	5.0	2.9	2.8	3.9	3.5
FL	6.0	10.5	8.9	9.3	6.6	5.3	6.4	9.1	6.4
AZ	10.1	14.2	9.4	8.4	5.0	0.6	3.1	7.2	6.2
NV	3.7	7.5	10.5	10.0	6.0	2.6	5.2	7.2	6.1
Base Case									
US	4.1	3.1	3.4	4.4	5.0	0.5	1.9	6.8	5.2
CA	5.1	4.4	3.3	2.9	3.4	-1.8	0.2	5.0	3.7
FL	6.0	6.8	4.5	4.8	5.1	1.2	4.1	10.0	6.4
AZ	10.1	10.6	5.2	4.3	3.6	-3.3	0.9	8.2	6.3
NV	3.7	4.2	6.2	5.8	4.8	-1.2	2.9	7.9	6.2
Stress									
US	4.1	0.6	0.0	1.0	4.1	-4.5	0.7	5.0	5.0
CA	5.1	0.2	-1.4	-0.9	2.6	-9.8	-0.9	3.7	4.1
FL	6.0	3.2	0.3	1.1	4.1	-5.9	3.0	8.5	6.6
AZ	10.1	7.1	1.4	1.2	3.0	-9.8	0.0	7.0	6.5
NV	3.7	1.0	2.1	2.2	3.9	-7.4	1.9	6.4	6.1
Severe Stress									
US	4.1	-0.7	-1.6	-0.7	-0.1	-8.2	-3.9	4.5	4.4
CA	5.1	-1.7	-3.6	-2.7	-2.3	-15.3	-7.9	4.2	4.2
FL	6.0	1.6	-1.6	-0.5	-0.4	-10.8	-3.3	8.7	6.4
AZ	10.1	5.5	-0.4	-0.1	-0.7	-14.3	-5.7	7.4	6.4
NV	3.7	-0.5	0.2	0.5	-0.8	-11.8	-3.7	6.3	5.7
Down 20%									
US	4.1	-4.9	-6.3	-5.0	-2.9	-	-	-	-
CA	5.1	-7.6	-10.4	-7.1	-5.1	-	-	-	-
FL	6.0	-3.7	-7.4	-4.6	-3.2	-	-	-	-
AZ	10.1	0.4	-5.7	-3.1	-2.4	-	-	-	-
NV	3.7	-5.2	-5.4	-4.0	-4.1	-	-	-	-

Source: CoreLogic, Barclays Research

Projected Losses

Figure 2 illustrates the effect of the home price scenario update on projected defaults and losses. Lower mark-to-market LTVs in the updated scenarios result in lower projected default rates and severities across non-agency sectors. This effect is most pronounced in the severe stress scenario where the home price scenario update lowers projected losses by 10-15%, compared with a 5-10% reduction for the base case scenario.

Figure 2: Projected Cumulative Defaults and Losses

Sector	Issue Yr	New								Online					
		Down 20%		Severe	Stress	Base	Case	Strong Recovery	Severe	Stress	Base	Case	Strong Recovery		
		Default	Loss	Default	Loss	Default	Loss	Default	Loss	Default	Loss	Default	Loss	Default	Loss
Jumbo Fixed	2004	15.3	7.0	10.9	4.5	7.8	2.8	6.8	2.0	13.9	6.2	8.2	3.1	6.8	2.1
	2005	34.7	18.5	26.1	12.6	17.9	7.9	14.3	5.5	30.6	16.0	19.4	8.9	15.2	6.1
	2006	46.6	26.5	37.5	19.5	27.3	12.9	21.9	9.3	41.8	23.3	29.0	14.2	23.2	10.2
	2007	50.0	27.8	40.7	20.7	29.7	13.8	23.8	10.0	45.0	24.5	31.4	15.1	25.2	10.9
Jumbo Hybrid	2004	17.0	7.8	13.3	5.5	10.5	3.9	9.4	3.0	15.5	7.1	11.1	4.3	9.6	3.1
	2005	33.6	17.3	25.7	12.0	18.7	7.9	15.3	5.6	29.8	15.2	20.1	8.9	16.2	6.2
	2006	49.7	27.2	40.1	19.9	29.5	13.2	23.6	9.3	44.8	24.1	31.5	14.7	25.3	10.3
	2007	59.8	33.4	50.1	25.5	38.2	17.6	31.1	12.9	55.3	30.3	40.4	19.4	33.0	14.0
AltA Fixed	2004	33.0	19.7	26.1	14.0	20.2	9.5	17.5	7.1	29.8	17.2	21.2	10.4	18.0	7.6
	2005	49.5	31.8	41.3	24.2	32.6	17.3	27.6	13.0	45.3	28.4	34.4	18.9	29.3	14.3
	2006	66.0	46.7	58.3	38.4	49.2	29.8	43.1	23.7	61.7	42.8	50.8	31.5	45.1	25.4
	2007	68.2	46.2	60.4	37.9	51.0	29.2	44.5	23.0	63.9	42.3	52.6	31.0	46.5	24.7
AltA Hybrid	2004	40.9	21.9	33.5	15.8	26.9	10.9	22.5	7.8	37.6	19.5	28.6	12.3	24.0	8.7
	2005	60.0	36.8	52.2	29.0	43.3	21.4	36.1	15.7	56.3	33.8	45.6	23.6	38.9	17.7
	2006	75.3	51.1	68.9	43.2	60.3	34.5	52.6	27.2	72.1	48.4	62.4	36.9	55.5	29.5
	2007	79.7	53.6	73.4	45.7	64.7	36.7	56.7	29.1	76.8	50.9	66.8	39.1	59.6	31.3
AltA NegAm	2004	51.4	29.0	44.2	22.5	37.4	16.8	32.9	12.7	48.5	26.8	39.0	18.3	34.2	13.7
	2005	69.3	46.5	62.9	39.2	55.5	31.8	49.7	25.7	66.5	44.5	57.2	34.0	51.6	27.4
	2006	79.6	56.3	74.6	49.2	67.9	41.3	61.8	34.1	77.2	54.6	69.5	43.7	64.1	36.3
	2007	82.1	55.8	77.1	48.6	70.3	40.4	64.0	32.9	79.9	54.1	71.9	42.9	66.2	35.2
Subprime	2004	58.2	44.2	50.6	35.3	43.4	27.3	39.2	22.2	53.8	39.4	44.5	28.6	40.2	23.3
	2005	75.0	61.3	68.3	52.1	60.8	42.5	55.3	35.0	71.1	56.7	62.1	44.3	57.0	37.0
	2006	84.4	72.5	78.7	63.7	71.8	53.8	65.7	45.2	81.2	68.6	73.1	55.9	67.8	47.9
	2007	85.4	72.2	79.6	63.1	72.4	52.9	66.0	44.0	82.1	67.9	73.8	55.0	68.4	46.8
Second Lien	2004	37.1	36.7	30.9	30.3	25.1	24.3	21.5	20.5	35.2	34.8	26.7	26.1	22.0	21.1
	2005	54.4	53.7	47.6	46.8	40.0	39.0	33.9	32.6	51.6	50.9	41.8	40.9	35.4	34.3
	2006	59.0	58.1	52.2	51.2	44.3	43.1	37.7	36.1	56.0	55.1	46.0	44.8	39.3	37.8
	2007	61.1	60.0	54.2	53.0	45.9	44.4	38.9	37.2	57.9	56.8	47.7	46.3	40.8	39.1

Note: Projections are as of June 2012 remittance for a sample of loans taken from each sector and issue year. Defaults and losses include projected balance forgiven.
Source: CoreLogic, Barclays Research

Loss-Adjusted Yields

The lower losses flow through to higher loss-adjusted yields, Figure 3. The home price scenario update increases base case yields by about 50bp, while yields in the severe stress scenario rise by 100-150bp on average. As would be expected, yields are lowest in the Down 20% scenario. Yields in this scenario are 200-300bp lower than in the updated severe stress scenario.

Figure 3: Loss-Adjusted Yields

Sector	Price	New						Online				
		Down 20%	Severe Stress	Stress	Base Case	Recovery	Strong Recovery	Severe Stress	Stress	Base Case	Recovery	Strong Recovery
Jumbo Fixed	95	2.3	3.7	4.5	5.2	5.7	6.0	3.0	4.1	4.9	5.4	5.7
Jumbo ARM	81	2.7	4.8	5.7	6.7	7.6	8.2	3.5	5.0	6.3	7.2	7.9
AltA Fixed	80	3.6	5.4	6.3	7.2	8.0	8.5	4.3	5.7	6.8	7.6	8.2
AltA ARM	56	2.6	5.6	6.7	8.1	9.4	10.3	3.9	5.8	7.4	8.7	9.7
NegAm	60	3.8	6.2	7.2	8.4	9.5	10.2	4.4	6.3	7.7	8.8	9.6
Subprime PAAA	45	3.5	5.9	7.1	8.1	8.9	9.5	4.5	6.3	7.6	8.5	9.2
Subprime LCF	37	3.9	6.8	8.1	9.6	11.1	12.1	5.1	7.2	9.1	10.6	11.7

Source: Barclays Research

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