

ECONOMIC FORECAST

California, Arizona and Florida Home Prices

Decline in Line with U.S. RMBS Forecast

By Fitch Ratings

Home prices in hard hit states like California, Arizona and Florida still have a considerable way to fall before stabilizing in late 2010, according to the latest U.S. home price forecast from Fitch Ratings.

Importantly, however, these additional declines remain within the ranges assumed previously in Fitch's RMBS rating actions. Therefore, the new date, in and of itself, is not expected to lead directly to any widespread negative rating actions.

Fitch expects that California will lead the way with an additional 36% decline in home prices from current levels over the next 12 to 18 months. Florida and Arizona are forecast to see declines of over 20% from today's levels in the same period. Not surprisingly, these states saw the largest run up in prices, with them more than doubling in the 2002-2006 period. To date, home prices in these three states have already fallen by 40% on average.

"Though substantial further home price declines are still to occur, it does appear that the new data is not indicating declines beyond those already anticipated," said Group Managing Director and U.S. RMBS group head Huxley Somerville. "Fitch expects that declines will continue for at least a year before home prices reach bottom."

California, Arizona and Florida account for approximately 50% of the overall non-agency mortgage origination volume by dollar over the past four years. New York has averaged approximately 5% of the dollar volume with New Jersey, Texas and Illinois accounting for three to five percent on average.

Home price declines in higher volume states outside of California, Arizona and Florida have fared substantially better and are expected to see more moderate further declines. Among these, Texas and Illinois are anticipated to see further declines of 1% and 9% respectively and New York and New Jersey are expected to see further declines of 11% and 20% respectively.

Fitch believes that most of the home price correction will occur in the next eighteen months, with prices exhibiting more stability beginning in late 2010. Fitch's forecast analysis assumes a 1.5% inflation rate for 2009 and 2010 and 3% for the following three years. Nationally, Fitch expects home prices to fall a further 12.5% on average.

Fitch's forecast is primarily based on its expectation that home prices will return closer to the inflation-adjusted long-term historical mean, which has been the pattern of prior home price cycles. However, given the volatile economic conditions, Fitch will continue to actively review its forecasts.

Fitch's rating definitions and terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the "Code of Conduct" section of this site. Reprinted with permission.