



CME Housing Futures and Options: Frequently Asked Questions

Housing and Index Background

How big is the U.S. housing asset class?

The housing asset class is the second largest market in the United States, just under the fixed income market and larger than the equities market. The housing market in the fourth quarter of 2005 was estimated at approximately \$21.6 trillion.

Why is the housing market significant?

The significance of the U.S. housing market stems from the sheer size of real estate as an asset class. Residential real estate represents more than one-third of the total value of these asset classes. But, unlike stocks and bonds, there has not until now been a liquid market or convenient means of hedging real estate risk.

What is the Case-Shiller Home Price Index and what does it measure?

Originally conceived by Karl E. Case and Robert J. Shiller in the 1980s, the Case-Shiller Home Price Indexes (now known as the S&P/Case-Shiller Home Price Indexes) measure home prices based on recorded changes in home values and a repeat sales methodology.

What is the difference between the “tradable” and “standard” S&P/Case-Shiller Home Price Indexes?

The new “tradable” are updated each month, whereas the “standard” Case-Shiller Indexes are updated on a quarterly basis.

“Tradable” Case-Shiller Indexes:

- Updated monthly and released at 1:15 pm (Central Time) on the last Tuesday of each month instead of a quarterly release of the housing index.
- Ability to hedge real estate risk that was previously unavailable to traders.
- The tradable monthly housing index has a 2-month “look-back” instead of the traditional 3-month model. This enables customers to get the housing index faster.

“Standard” Case-Shiller Indexes

- Updated quarterly and typically released on the last business day of the calendar quarter end with a 3-month ‘look-back’
- NEVER released sooner than “tradable” indexes
- Discrete quarterly indexes with no data overlap ... thus, March update reflects Oct.–Nov.–Dec. data

Can the index values be changed after the initial announcement? Does this affect settlement?

The index values can be changed after the initial announcement but the final settlement DOES NOT change. After the monthly index is announced, it can be revised up to 24 times over the next two years. Market positions will be decided based on the initial index announcement. Revisions are for informational purposes only.

How do the S&P/CS Home Price Indexes differ from other housing indexes?

There are two other major housing indexes: the National Association of Realtors (NAR) Indexes and the Office of Federal Housing Oversight (OFHEO) Indexes.

The NAR Indexes quote median values without recourse to a repeat sales methodology, which creates a significant potential for bias.

The OFHEO indexes do utilize a repeat sales methodology but are confined to Fannie Mae and Freddie Mac conforming mortgages, which are skewed to the lower end of the housing market. This is a significant issue because only approximately one-sixth of housing in California is sold with a conforming mortgage. OFHEO indexes also utilize appraisal data to supplement their samples, which creates the possibility of bias that reflects the interests of those who are paying for the appraisal.

However, as all three indexes generally track the same phenomenon they are likely to move more or less in parallel.

Who is likely to participate in the CME Housing marketplace?

Builders who have an inventory of homes to sell may wish to hedge the inventory with CME Housing futures and options.

Banks, lenders, holders of mortgage portfolios and others with housing-related risk can also use these products for risk management. Holders of mortgage portfolios and mortgage insurers currently hold a significant exposure to home prices, and a sustained decline in housing combined with high loan-to-value (LTV) ratios could result in dangerous levels of mortgage defaults. Government-sponsored entities (GSEs), agencies, and other issuers of mortgages also would benefit from participation in these markets in order to address the risk inherent in their portfolios. In addition, hedge funds and investment groups seeking portfolio diversification and the possibility of profit from changing housing values can find opportunities in these products.

Finally, investors at large will find CME Housing futures and options useful to provide exposure to a very important asset class without incurring the difficulties of actually executing real estate transactions.

What are the economic benefits of a product like CME Housing?

On a macroeconomic level, futures based on home prices may add stability to the economy by allowing institutions to hedge their exposure to home prices and diversify the potential impact of sustained declines in home prices.

Contract Specifications

What is the contract value?

The value per contract is \$250 times the current value of each respective housing index value. For example, if the index value for Chicago is 292.45, the value would be \$73,112.50.

What are the trading hours?

Visit www.cme.com/housing for all contract specification and trading hours. In brief, the futures trade on CME Globex from 5:00 p.m. to 2:00 p.m. the next day Sundays through Friday. The options on futures trade on the CME trading floor from 8:00 a.m. to 2:00 p.m. Monday through Friday.

What is the value of each index point?

Each index point has a value of \$250. Trading is done in 0.20 increments so 0.20 index points are valued at \$50.

Why is the contract traded in the February quarterly cycle?

The contracts are traded in the February quarterly (February, May, August and November) because there is a two-month lag period for each index. For example, when the index value is announced for the February contract, it will represent housing sales for the months of October, November and December.

What cities are available to be traded?

CME will offer Housing futures and option on the following cities: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco, Washington, DC and a 10-city composite index.

Will spreads be available for trading? If so, what type?

There will be two types of spreads available for trading: inter-commodity (trading multiple cities) and calendar spreads (contracts on the same city and 12-months out).

What are the reportable position limits?

The reportable position limits are 5,000 contracts. For more information on position limits, contact CME at 1.800.331.3332.

Are both futures and options available on CME Globex?

No. The CME Housing futures contracts will trade on CME Globex, but the options on futures will trade on the trading floor in an open outcry style. Also, futures and options will be available for block trades. Visit our website to learn more about block trading.

How will these contracts be settled?

The contracts are settled two months after the previous calendar quarter. For example, the February contract will be settled against the spot value of the S&P/Case-Shiller Home Price Index values representing the fourth calendar quarter of the previous year (covering data accumulated in October, November and December). The May contract will be settled against the spot value of the S&P/CS values representing the first calendar quarter (covering data accumulated in January, February and March) and so on.

When is the expiration of the contract and release of the monthly index?

Each contract will expire on the last Tuesday of each month at precisely 12:00 noon Central Time. The index values will then be announced at 1:15 p.m. Central Time.

What type of trading is available for CME Housing contracts?

There will be futures and option on futures, block trading and spreads. A minimum of 20 contracts is required for a block trade. Visit www.cme.com/housing for the block trading process and rules.

What membership classification is required for members to trade CME Housing?

Members wishing to trade CME Housing products will need a Growth and Emerging Markets (GEM) membership, which enables them to execute trades in various products, including those related to emerging market countries, as well as CME Weather and CME Housing products. As with all CME products, non-member customers can trade CME Housing contracts at higher trading fees. Visit our Web site for fee information.

How does a customer find market data for CME Housing futures and options?

Market activity for CME Housing futures can be viewed by going to www.cme.com/housing and checking our free, real-time housing quotes, including block trading and volume. Traders can also view CME Housing market data on their CME Globex screens, from which they can also participate in the market..

For options, visit www.cme.com/housing to get a list of brokers who can give you CME Housing options quotes.

What are the fees and margins for these products?

Visit www.cme.com/housing for all fees and margin requirements.