

M Hanson Advisors – Real Estate & Finance

The Mortgage Pages - May 10th 2010

- **April Foreclosure Detail - The Liquidation Drive Continues**
- **Jumbo Foreclosures Outperform**
- **Average Present House Value of Foreclosures Continues to Drop -- a Leading House Price Indicator**
- **Non-Resi Foreclosures Across Most Prop Types Continue at Highs**

Our mission is to provide our clients a significant edge. This is done by turning the daily, market-moving real estate and mortgage news flow and events into old news by the time it makes headlines. - Mark Hanson

Summary

This report **details April Foreclosure and property price results for various loan and property types.**

While the headlines will not be as grand as March's with respect to the sudden jump to record highs, the results are extremely interesting and highlight that in fact, **lenders are continuing to actively purge distressed inventory of all types at a record pace**, a notable change in stance from that of just a few months ago.

1) With respect to **Residential**, on a daily basis the Foreclosure velocity increased slightly over March's record highs. But on a monthly basis -- because April had fewer days than March -- fell in the low single-digits. MTD in May, the increase is continuing. (because NOD's and NTS's are up to 10-days delayed and the first business day of May was Monday the 3rd, they are not included in this report).

2) Cancelled Foreclosures -- indicative of loan mods or restructurings and that steal from Foreclosures until the entity re-defaults -- rose across every property and loan type for a sixth straight month, other than Apartment and Commercial, which both fell. **Because this mod and restructuring surge is so new, we have only felt the benefits and not the re-default effects, of which the leading edge is upon us now.**

3) Jumbo loan purging is continuing to accelerate at the greatest pace, as evidenced by the MoM change in this group. **Jumbo Cancelled Foreclosures** are surging, especially among those with higher balance second mortgages, which is interesting. Of all the loan types, Second Mortgages are most prevalent behind Jumbo first mortgages sitting behind 65% of Jumbo Foreclosures.

4) The **Present Value of Foreclosed houses continue to decline**, as determined by our enterprise in-house Automated Valuation Model (AVM)...over the past five months over 7%.

This is a significant leading house price indicator and led to my call of statistical bottom to house prices on March 9th 2009. This is because distress sales make up such a large percentage of total sales, as the Foreclosures I track are resold three to six months out, they heavily influence reported median and average house prices.

In addition to the pressure on prices from the distressed stock, post tax-credit buyers will be less willing to overpay for properties adding to the pressure.

5) By residential property type, **Detached SFR's, Condo's, Land, and Manufactured Houses** were all liquidated at a record pace in April, of which the latter two -- both with the deepest loss severities -- led the pack in April.

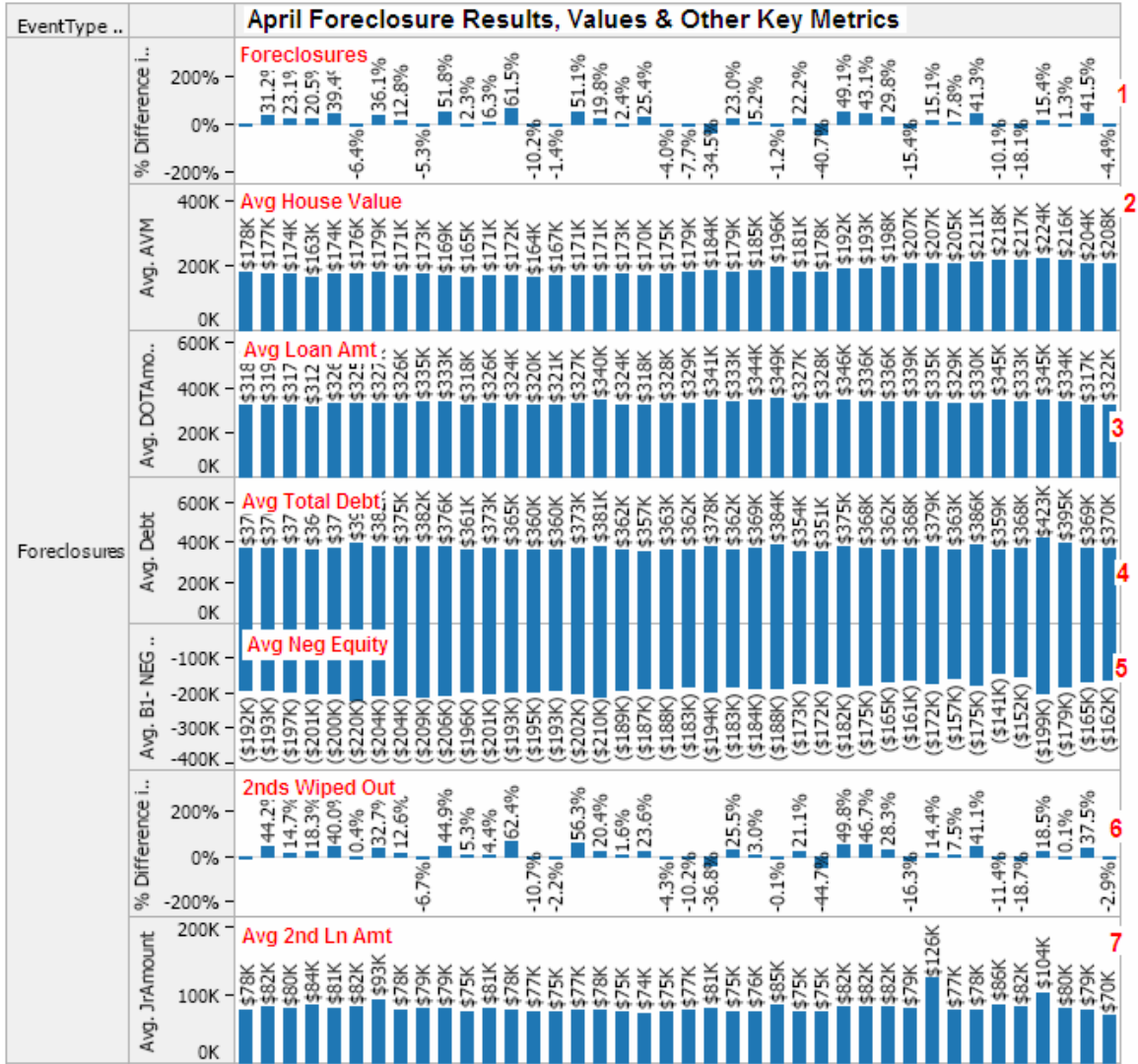
6) By Non-Residential property type, **Agricultural, Apartment, Commercial and Industrial loan** liquidations were all at or near record highs in April with only Apartment dropping MoM, but not outside of typical monthly volatility.

In the following reports across all loan and property types, this report details the Foreclosure metrics upon which I focus the most. They are:

- Total Count
- Average Present Property Value
- Average Negative Equity
- Average Deed-of-Trust Amount
- Average Total Mortgage Debt
- Second Mortgages Wiped Out
- Average Second Mortgage Amount

1) Actual Foreclosures, House Prices & Other Key Metrics through April

The **Residential Foreclosure** data below has been filtered to only capture properties that have the greatest influence on reported housing statistics...those props most in demand by first timers and investors. This is done by filtering out anything that was not clearly labeled SFR, Manufactured or Condo, all first mortgage amounts above \$750k and all present property values above \$650k.



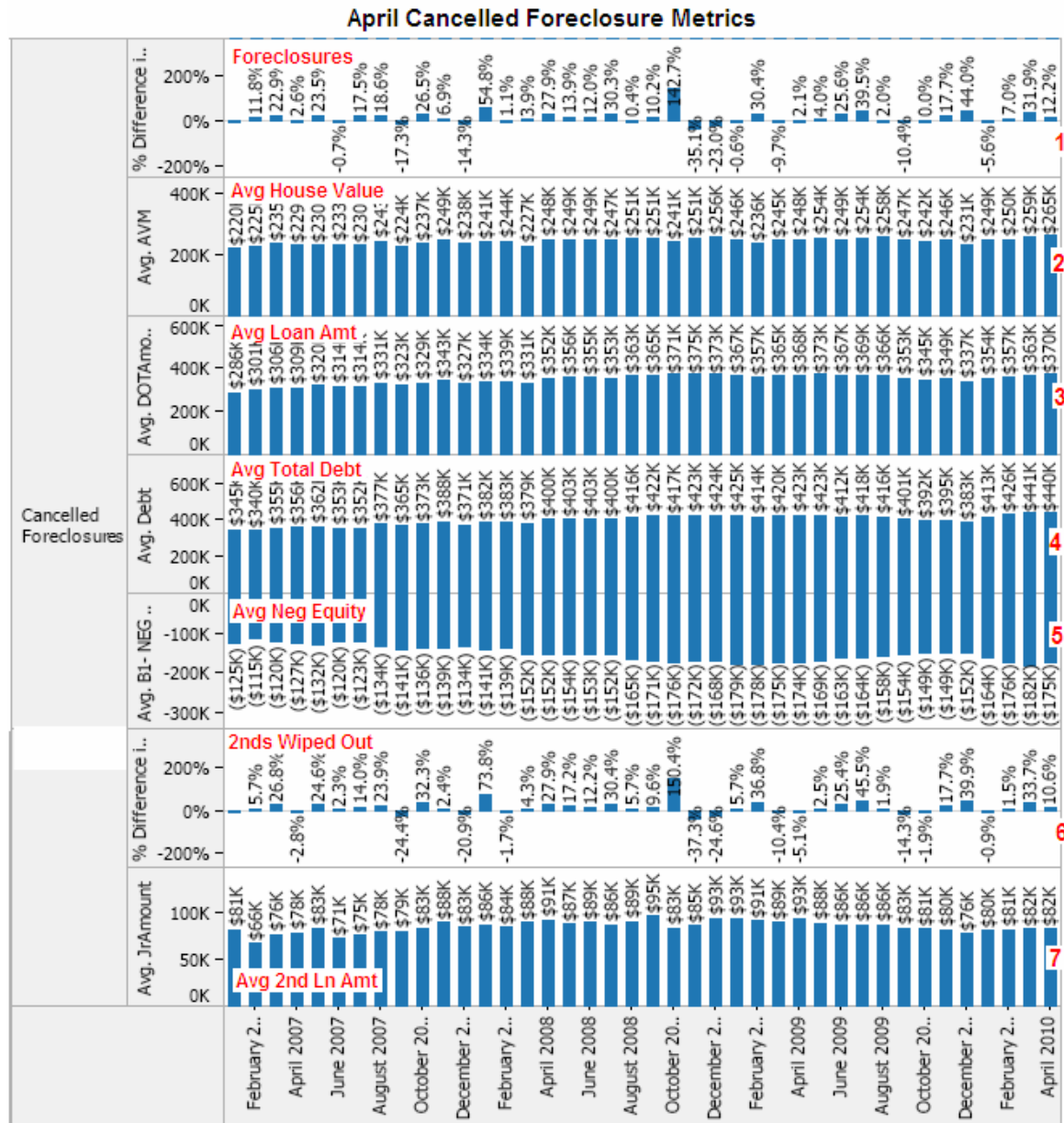
The notes below correspond to the chart above.

- 1) **Foreclosures** across my sample cohort fell 4.4% in April. But April had one fewer business day than March and Cancelled Foreclosures increased, so net-net end-stage Foreclosure activity was higher MoM.
- 2) The **Average Present Value** of Foreclosures at \$208k has dropped 7.1% since Nov. Because these props make up such a large pct of total sales, this drop in prices I am tracking will negative effect future reported median and avg house prices.
- 3) The **Avg Deed-of-Trust amount** of \$322k is dropping, which is indicative of increased lower grade loans, such as Subprime, re-entering the mix. This is likely due to the leading edge of the loan mod re-default channel being upon us now.
- 4) **Total Debt** on each property of \$370k -- including 2nds, penalties, interest and fees -- was \$48k higher than the deed amount in April and is falling. Again, this is likely has to do with more Subprime re-defaults entering the mix, which inherently have fewer 2nds behind them.
- 5) **Avg Negative-Equity** stood at a whopping \$162k or 78% of the avg Present Value of \$208k.
- 6) **Second Mortgages** totally wiped out due to being behind a first Foreclosed upon were down 2.9%. **55% of all Foreclosed first mortgages had an accompanying Second mortgage.**
- 7) The Avg Second Mortgage amount wiped-out was \$70k, again showing that smaller loans attached to more marketable houses are being foreclosed upon at a greater rate, which is likely by design but also a result of loan mod re-default.

2) Cancelled Foreclosures and Key Metrics through April

The chart below is of **Cancelled Foreclosures**, which are indicative of loan mods and restructurings and steal from Foreclosures until the entity re-defaults, rose across every property and loan type for a sixth straight month, other than Apartment and Commercial, which both fell. **Because this mod and restructuring surge is so new, we have only felt the benefits and not the re-default effects, of which the leading edge is upon us now.**

Bottom line - Cancelled Foreclosures tend to have a higher loan amount, slightly less negative equity and more Second Mortgages attached than Foreclosures meaning there are less Subprime successfully modified. But at the end of the day the metrics are only marginally better and over the mid-to-long term too close to Foreclosures for most to end up any other way.



1) Cancelled Foreclosures across my sample cohort rose 12.2%. Because these steal from Foreclosures until the borrower re-defaults, without them April Foreclosures would have been higher.

2) The Average Present Value of Cancelled Foreclosures at \$265k is climbing in contrast to \$208k for Foreclosures, as lenders get real aggressive modifying all loan types over the past six months.

3) The Avg Deed-of-Trust amount of \$370k is also climbing, which is also indicative of increased mods on higher grade loans entering the mix.

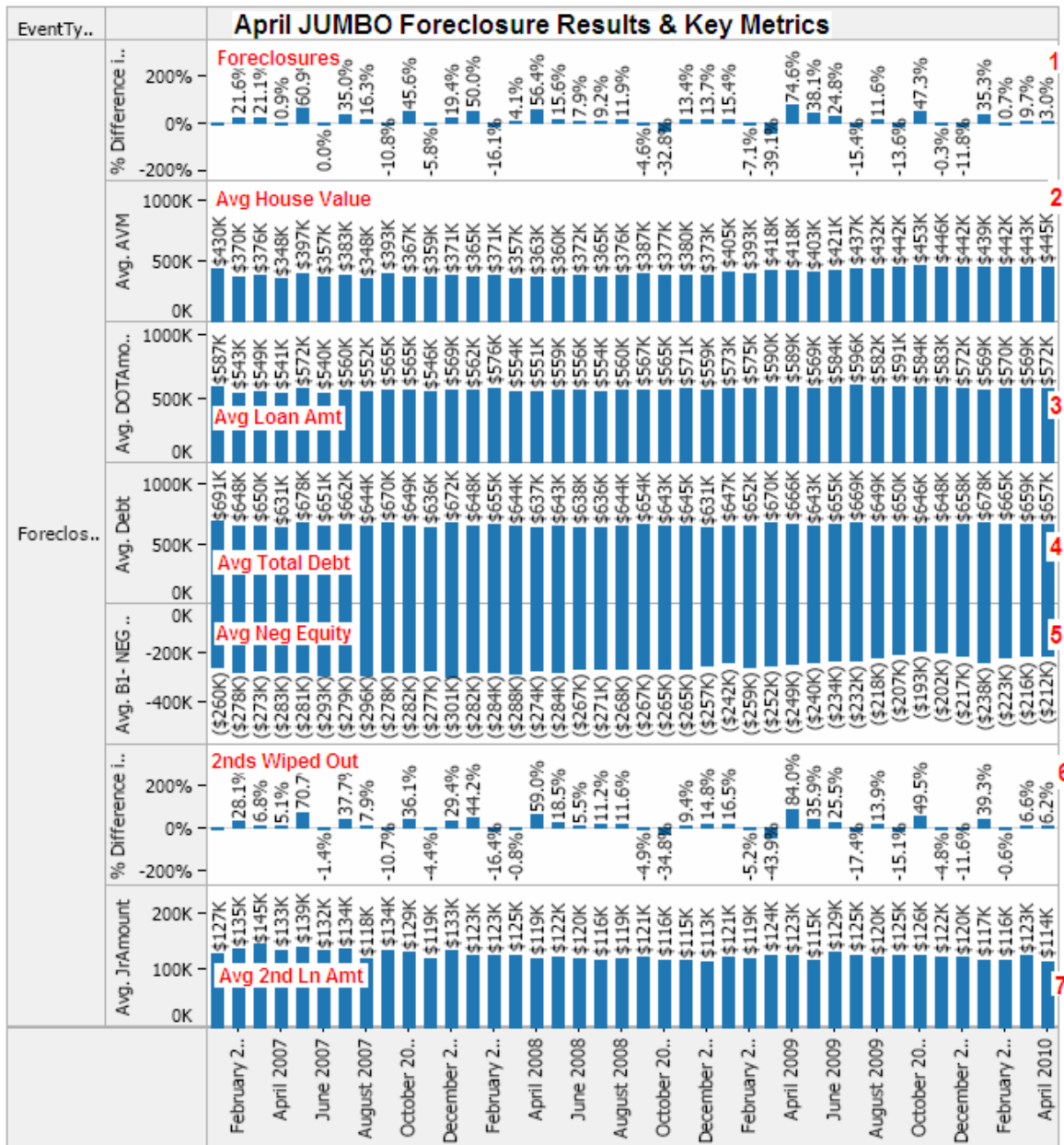
4) Total Debt on each property of \$440k -- including 2nds, penalties, interest and fees -- was \$75k higher than the deed amount in April and is climbing as higher grade loans with more second mortgages attached enter the mix.

5) Avg Negative-Equity stood at \$175k or 66% of the avg Present Value of \$265k. This is lower than the 78% for Foreclosures, but not enough to make a difference in the end.

6) Second Mortgages saved due to a Cancelled Foreclosure rose for the third month in a row. **57% of all Cancelled Foreclosures had an accompanying Second mortgage.**

7) The Avg Second Mortgage saved was \$82k.

3) Jumbo Foreclosures, House Prices & Other Key Metrics through April



1) Foreclosures across my sample Jumbo cohort rose 3% in contrast to Total Foreclosures, which fell 4.4%.

2) The Average Present Value of Foreclosures at \$445k is flat over the past six months. But because they make up such a small pct of total sales are not as influential on prices as the cohort of properties represented in the first chart of this report.

3) The Avg Deed-of-Trust amount of \$572k indicative of nothing too interesting.

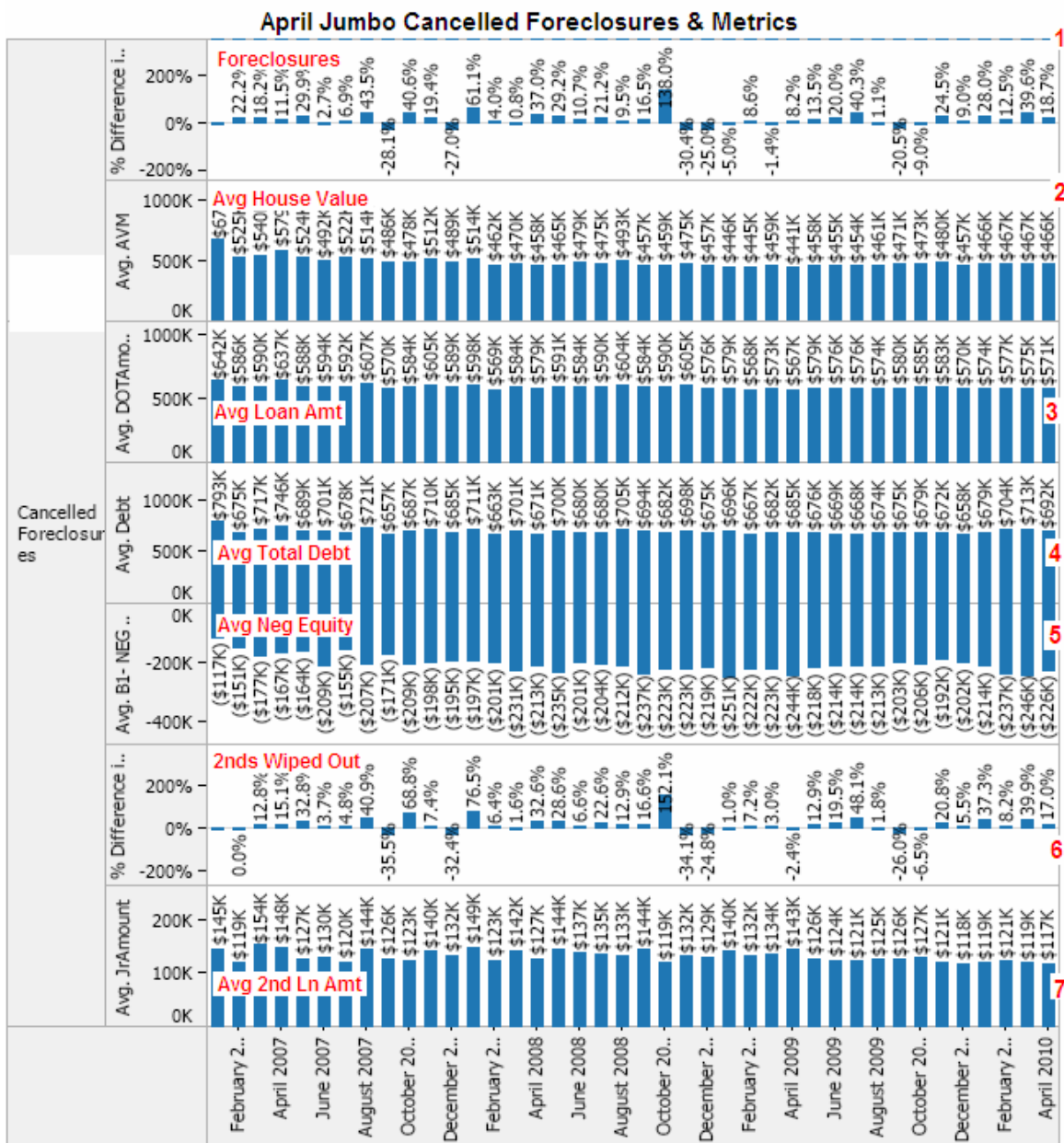
4) Total Debt on each property of \$657k -- including 2nds, penalties, interest and fees -- was \$85k higher than the deed amount in April and very interesting. This is indicative of more firsts with Second Mortgage financing behind them in the Jumbo universe. In fact, **65% of all Jumbo Foreclosures wiped-out a Second Mortgage vs. 55% in the first chart.**

5) Avg Negative-Equity stood at \$212k or 47% of the avg Present Value of \$445k, much lower than the aggregate in chart 1.

6) Second Mortgages totally wiped out due to being behind a first Foreclosed upon were up 6.2%. **65% of all Foreclosed first mortgages had an accompanying Second mortgage.**

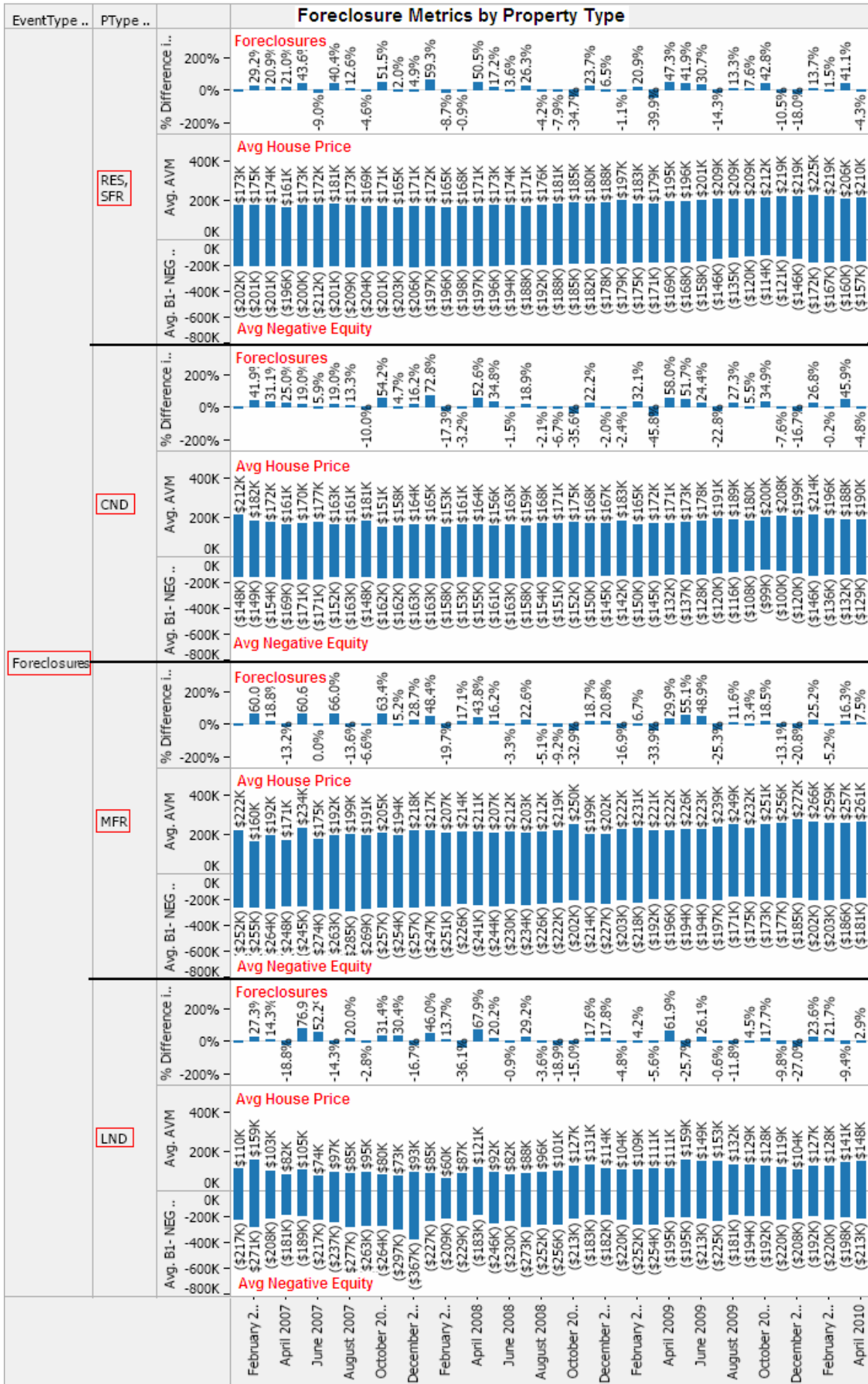
7) The Avg Second Mortgage amount wiped-out was \$114k, 50% higher than the aggregate in chart

4) Jumbo Cancelled Foreclosures and Key Metrics through April



- 1) Cancelled Jumbo Foreclosures across my sample cohort rose 18.7% vs. 12% for the aggregate in Chart 2.
- 2) The Average Present Value of Cancelled Foreclosures at \$466k is flat.
- 3) The Avg Deed-of-Trust amount of \$571k is identical to the Jumbo Foreclosed deed amount..
- 4) Total Debt on each property of \$692k -- including 2nds, penalties, interest and fees -- is \$35k higher than Jumbo Foreclosures and very interesting, as it shows lenders are saving a larger percentage of loans on which they are owed more or Second Mortgages are in place.
- 5) Avg Negative-Equity stood at \$226k or 49% of the avg Present Value of \$466k. Unlike lower-priced houses in Chart 1 and 2, Negative-Equity for Jumbo Cancelled Foreclosures is higher than for Jumbo Foreclosures.
- 6) Second Mortgages saved due to a Cancelled Foreclosure rose for the sixth third month in a row showing a pattern...banks really want to keep their Seconds behind Jumbos in place. A whopping 65% of all Cancelled Foreclosures had an accompanying Second mortgage.
- 7) The avg Second Mortgage saved was \$117k.

5) Foreclosures by Property Type and Key Metrics Through April



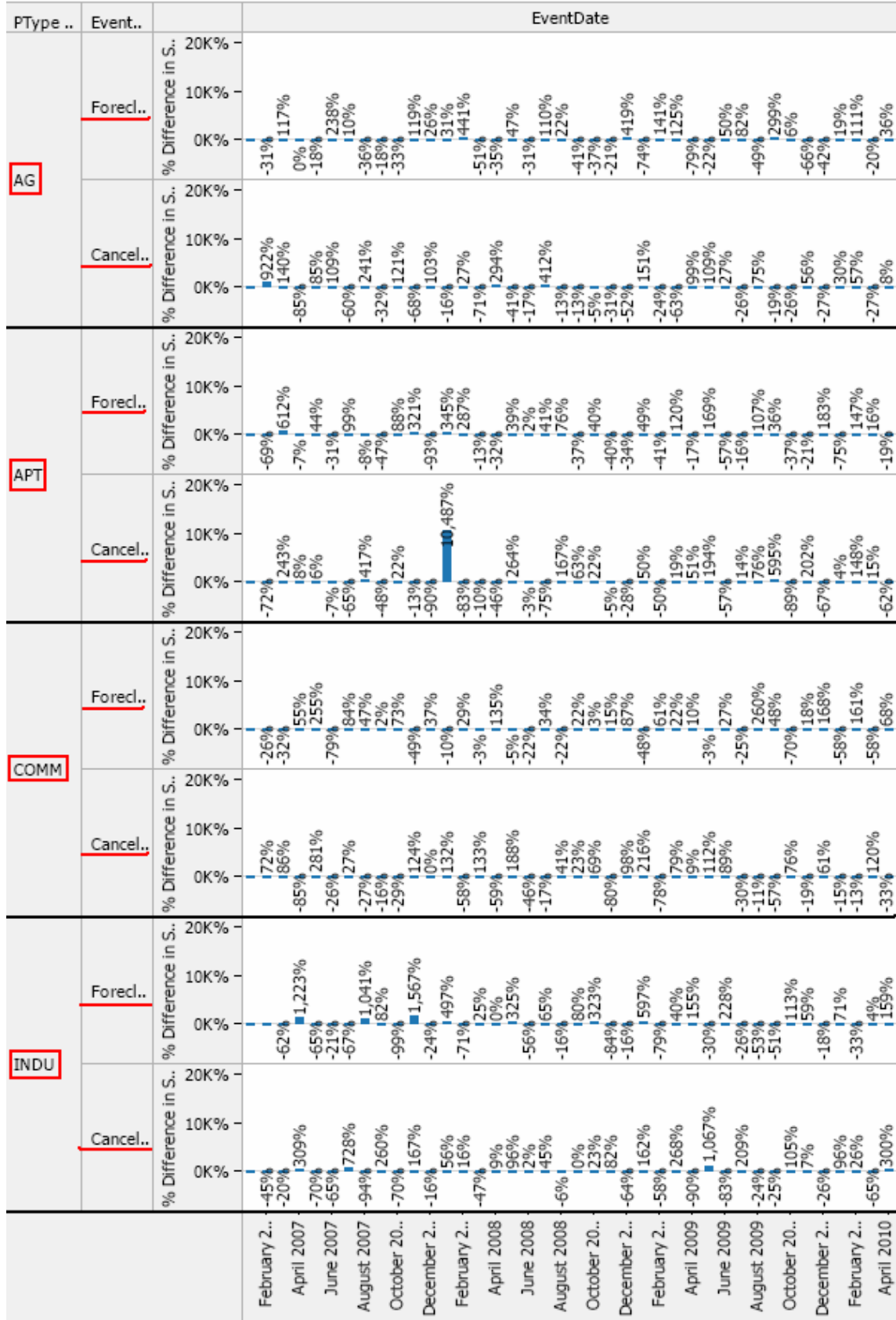
- 1) Detached SFR and Condos are both down in line with the aggregate but with April having one fewer day than March and Cancelled Foreclosures rising, the drop is more than offset.
- 2) House and Condo Prices are dropping sharply in recent months
- 3) Manufactured Houses saw an up-tick in Foreclosures and steady values
- 4) Land is a mess. Although total Foreclosures are dropping slowly and values climbing, both unlike the other cohorts, the Average Negative Equity of \$213k on an Average Value of \$148k is huge.

6) Non-Resi Foreclosures & Cancelled Foreclosures by Property through April

The chart below is of monthly Foreclosures and Cancelled Foreclosures across Agricultural, Apartment, Commercial and Industrial loans and is self-explanatory.

In April all loan types saw a jump other than Apartment loans, which dropped slightly from their record high in March, but not outside of what is to be expected given typical MoM volatility.

Real-Time Foreclosures by Property Type



Best Regards,
Mark Hanson
Mark@MHanson.com
www.MHanson.com

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