M Hanson Advisors – Real Estate & Finance
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- April National Foreclosure Data Release Preview

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*

1) For April, tomorrow's RealtyTrac should report a slight drop in their **headline Foreclosure results**, down about 5-7% MoM. But when considering there was one less business day in April and Cancelled Foreclosures -- indicative of loan mods and that steal from Foreclosures and all stages of the delinquency and default pipeline -- were up sharply once again, **net-net total Foreclosure activity actually increased.**

2) Foreclosures, which have the most immediate impact to the housing market and balance sheets, remained at record highs within +/- 2%.

3) The drop in **Notice-of-Default and Notice-of-Trustee activity** was led by the GSE's and caused by the increase in mods. But at the same time, their actual Foreclosures remain at record highs.

4) Jumbo loan NODs, NTS's and Foreclosures all increased, which is a unintended consequence of aggressive loan mod programs…the more you try to save the more you will find who can't, or don't want to be saved. Of note, second mortgages are most prevalent behind Jumbos.

5) On a **YoY basis**, actual end-stage Foreclosures were up sharply, NODs down moderately and NTS's up slightly making for a flat to slightly higher headline YoY aggregate comparable.

6) 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.

7) The **average Present Value of residential detached and condo properties,** as determined by our in-house automated valuation model, is down roughly 7% since January. Because this group of properties will make up such a large percentage of resales three to six months out, they are a great leading price indicator.

8) 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.

9) Cancelled Foreclosures rose across every resi and non-resi property and loan type for a sixth straight month, other than Apartment and Commercial, which both fell. However, the drop is not outside of typical volatility for these series.

10) BofA and **Wells** were the only two top servicers to see a slump in Cancelled Foreclosures indicating they could be at a mod plateau. This makes sense, as these two banks have consistently been the most aggressive at modifying loans and could be a **significant leading indicator of mods having less of an impact on new-era "credit" in the near to mid term.**

11) For residential, the Avg Present Value of Cancelled Foreclosures is 25% higher than on Foreclosures showing a greater number of lower grade loan mod re-defaults are beginning to enter the mix and banks are more aggressive modifying loans on which they stand to lose the greatest amount.

12) Cancelled residential Foreclosures are still occurring at a slower absolute pace than new delinquencies and defaults are entering the pipe, thus the massive default bubble of eight million resi loans can't deflate unless Foreclosures increase from current record highs.

13) In q309, the banks really cranked up their **new and improved, mega-robust, legacy loan alchemy programs** that provide greater leverage to over-levered borrowers in the hopes of preventing losses a little longer. Because of the timeline of when this mod and restructuring bubble first began to blow, we have only felt **the positive effects of modifications have been felt to date and not the negative re-default effects**.

But based upon the six through 18-month trend the leading edge of the re-default wave is upon us now making for a good case that Q110 was as good as it gets for "credit" as we now know it if May and June NOD, Foreclosure, and Cancelled Foreclosure activity continues at the same pace as the past three months.

Modification redefaults -- basically a second channel of early stage defaults, late stage default and Foreclosures -- are something few are modeling.

14) Because of continued, epic volatility in new-era "credit", **on a go forward basis** real-time Foreclosure stage and Cancelled Foreclosure tracking at the macro, servicer-specific, and loan and property type level will be fundamental in establishing when and at what pace credit will begin to worsen again, which it will with modification purgatory never holding as many souls as in April. Luckily, as far as I am aware, we are the only firm that tracks all of these conditions in real-time -- and makes it available to clients -- so there should be no surprises.

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