

Subject: 5-13 Mark Hanson - (UPDATE 1) April Foreclosures Re: 5-12 Mark Hanson - April National Foreclosure Data Release Preview

M Hanson Advisors – Real Estate & Finance

The Mortgage Pages - May 13th, 2010

- (UPDATE-1) April Foreclosures at New Record Highs

This is an update to yesterday's morning's **Foreclosure Preview** report with actual data provided by RealtyTrac this morning.

There is only one data point within this report that is meaningful - **'Foreclosures at record highs in April'**.

But still, RealtyTrac is under-reporting actual Foreclosures by at least 10% in recent months, which I detail in item 2 below. This, combined with the fact that April was a short month relative to March and Cancelled Foreclosures (not tracked by RealtyTrac) due to mods have surged in recent months, does not do the 'Record High' headline justice...actual Foreclosures are much stronger than their headline number suggests.

At the present time the NOD and NTS data are very noisy and can provide no indication of a fundamental trend. We have gone over all this before, but let me summarize.

1) NOD and NTS Data Very Noisy and Can Provide no Indication of Fundamental Trend

With respect to NOD's and NTS's, we are comping YoY against a sharp ramp in activity from when Obama was inaugurated in Jan '09 and immediately announced a 'foreclosure-prevention' plan to be detailed by April through his July 28th servicer 'come to God' meeting at which time, HAMP was turned into a Stated Income program so anybody with a sob story could start a trial mod.

During this period of time, servicers sharply accelerated the pace of NODs and NTS's worried that the new plan -- yet to be detailed -- would somehow prevent them from doing so. Then in March/April when the program kicked off, NOD and NTS volume leveled off.

But because servicers required full-qualifying prior to being granted a trial mod, few were getting done so on July 28th Obama brought all major servicers to DC and threatened them to do more. The result was to eliminate most trial mod qualifying standards. Immediately, trial mod starts surged.

Beginning the very next month, NOD's and NTS's began to fall sharply and did through Jan '10, as millions of low-qual, high risk mods and restructurings were put on the street of which we will see higher-than-Subprime redefault rates at the end of the day. In fact, based up the six to 18-month redefault trends, the

leading redefault edge is upon us now, which is in part the reason for the divergence in actual Foreclosures.

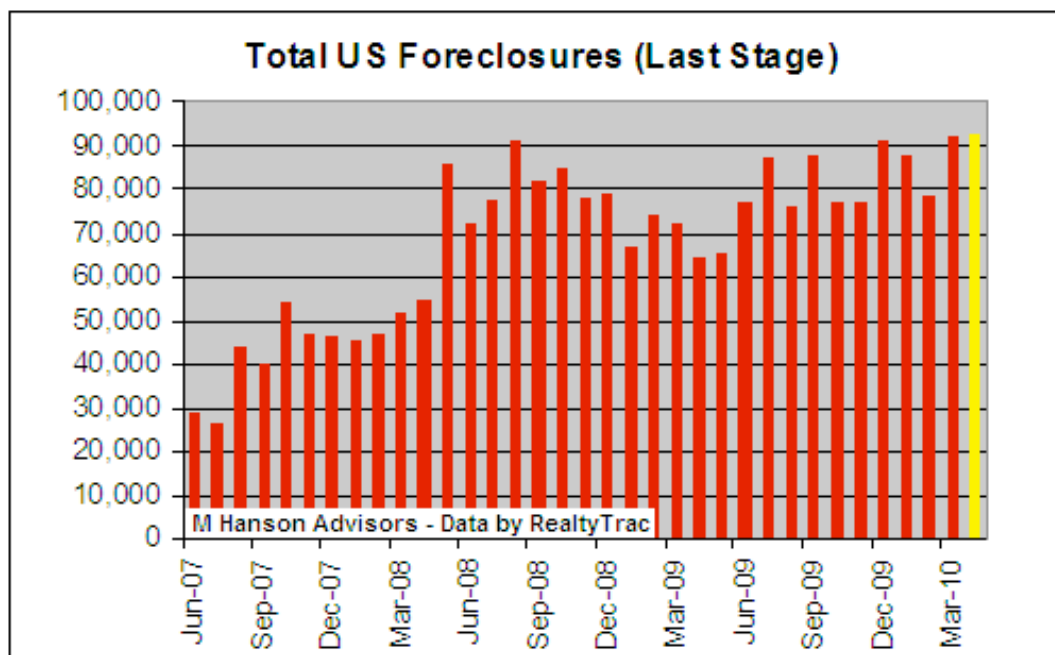
This timeline of events is clear when looking at the following charts. In fact, NOD's and NTS's fell so sharply in the back half of 2009, based upon the recent pace of activity, the 2010 YoY comps will blow-away.

2) US Foreclosures Hit a Record-High in April

More houses were reposed by banks in April than any other month. And remember, **RealtyTrac does not track third-party courthouse sales** where a party buys the house using a cashier's check on the steps. These are Foreclosures just like REO.

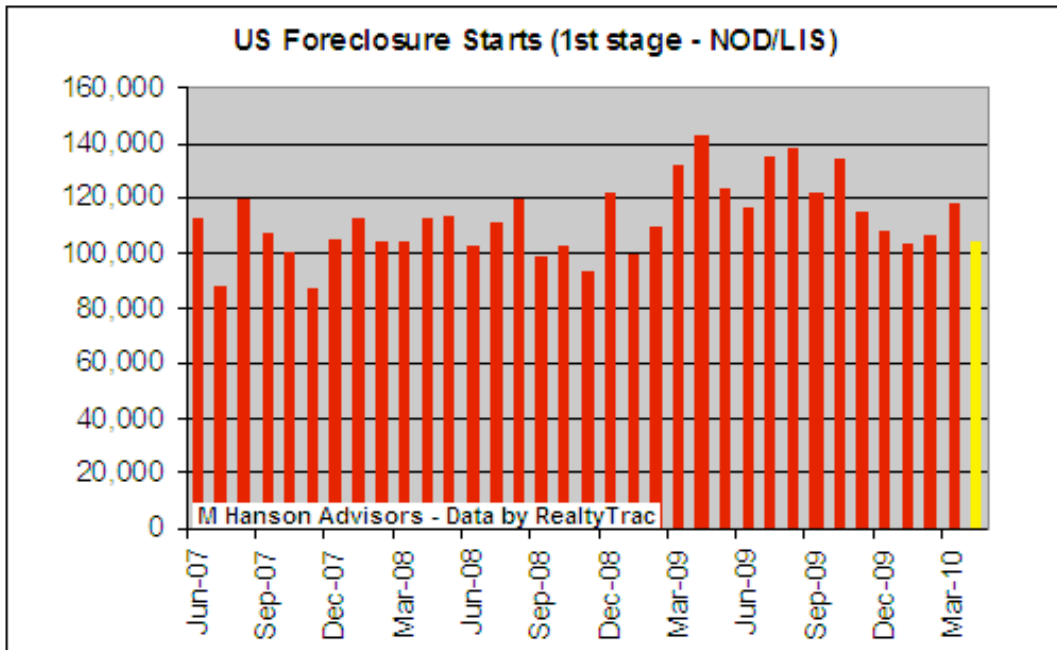
In fact, on third-party Foreclosure sales banks take an immediate loss vs. REO that can be stretched out, most third-party buyers are investors, and most houses will end up going back into the for-sale housing supply within three to nine months. Third-party Foreclosures have grown sharply YoY from less than 10% to approx 20% of all Foreclosures. This is not being accounted for.

And 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, **Foreclosures are running at a much hotter pace than RealtyTrac's data would imply.**



3) US Foreclosure Starts in April declined MoM and YoY but appear to have leveled out above the 100k mark. But fundamentals have little to do with this series because of the reasons mentioned above, specifically the surge in Cancelled Foreclosures, which are indicative of loan mods, and not tracked by RealtyTrac.

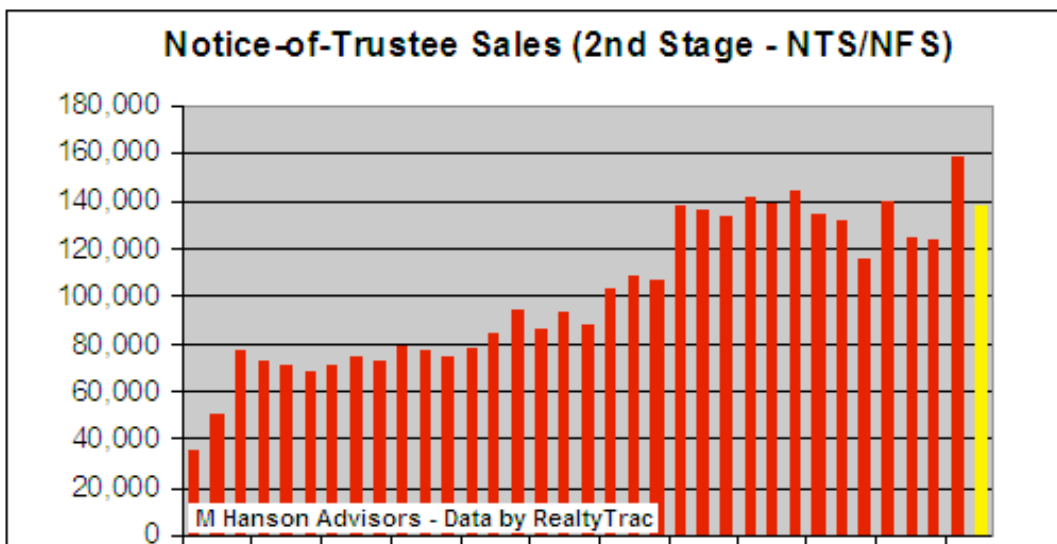
In q309, the banks really cranked up their **new and improved, mega-robust, legacy loan alchemy programs** that provide greater leverage to over-levered borrowers in the hopes of preventing losses a little longer. Because of the timeline of when this mod and restructuring bubble first began to blow, we have only felt **the positive effects of modifications have been felt to date and not the negative re-default effects**, which are beginning to be felt now based upon 6-to-18 month redefault rates.



4) Late stage Defaults (**imminent Foreclosures**) as measured by **Notice-of-Trustee Sales**, also fell MoM, but are on the rise again for several months now.

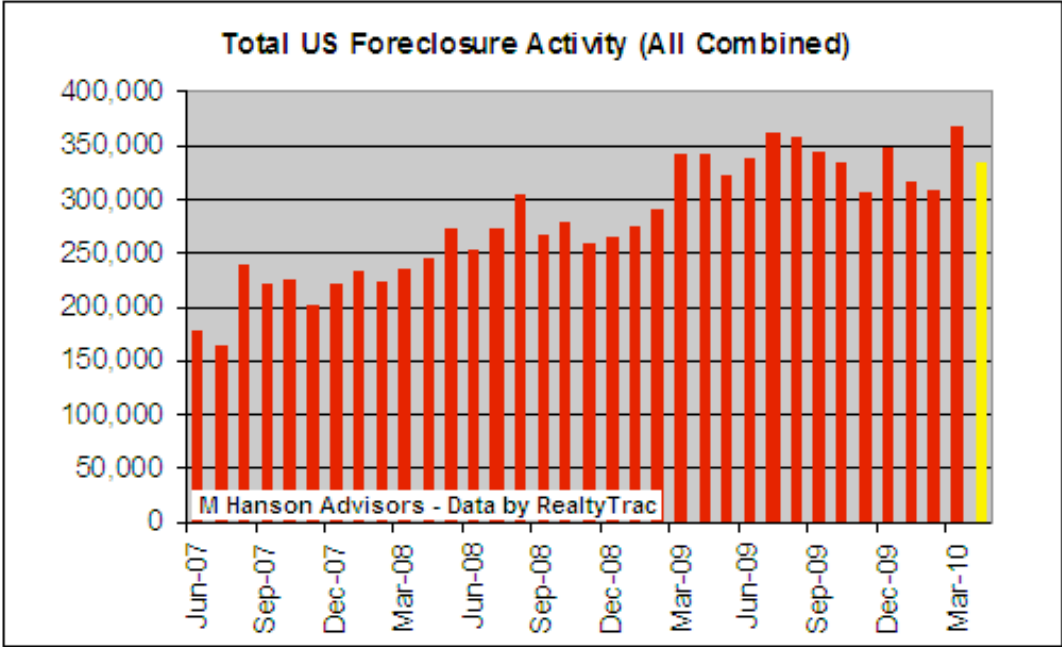
They kicked upward in December when Obama announced his 'permanent loan mod drive', a unintended consequence of granting trial mods to borrowers who never should have been given one without qualifying up front.

Because so many trial mods have been done for loans past the NOD stage, as loans redefault many will not need another NOD and can end up as a 30-day late and Notice-of-Trustee Sale simultaneously. This is a new dynamic likely nobody is modeling that makes Foreclosure tracking all the more interesting.



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5) **Total US Foreclosure activity**, RealtyTrac's triple counting of the three stages detailed previously, was reported down 9% MoM and 2% YoY. But for reasons explained above further analysis of this series is meaningless other than to headline readers.



Best Regards,
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YESTERDAY'S FORECLOSURE PREVIEW BELOW

M Hanson Advisors – Real Estate & Finance

The Mortgage Pages - May 12th, 2010

- 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.

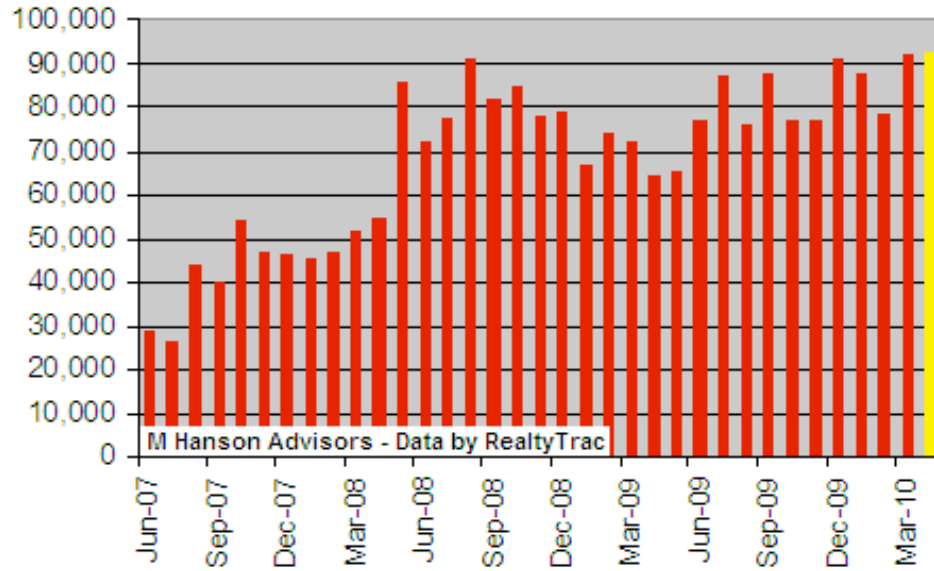
14) Because of continued, epic volatility in new-era “credit”, **on a go forward basis** real-time Foreclosure stage and Cancelled Foreclosure tracking at the macro, servicer-specific, and loan and property type level will be fundamental in establishing when and at what pace credit will begin to worsen 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,
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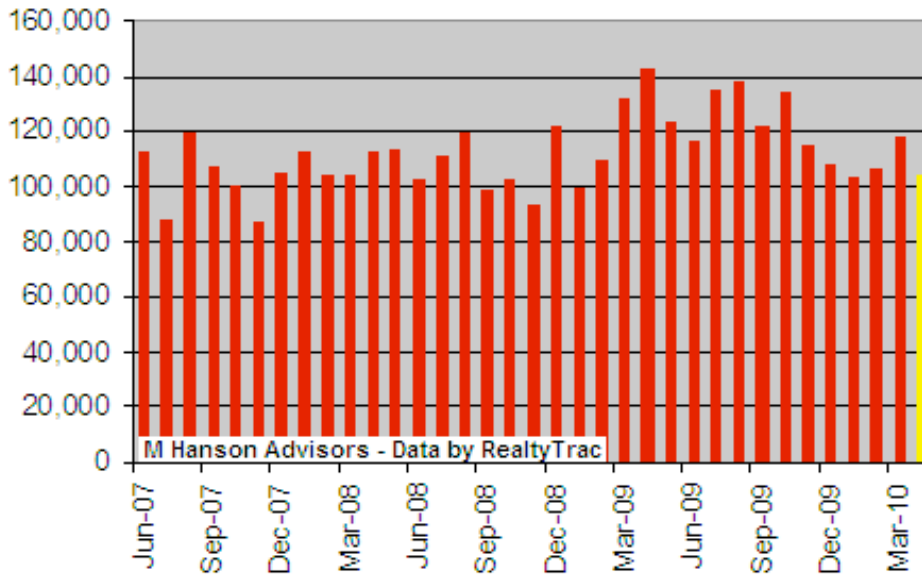
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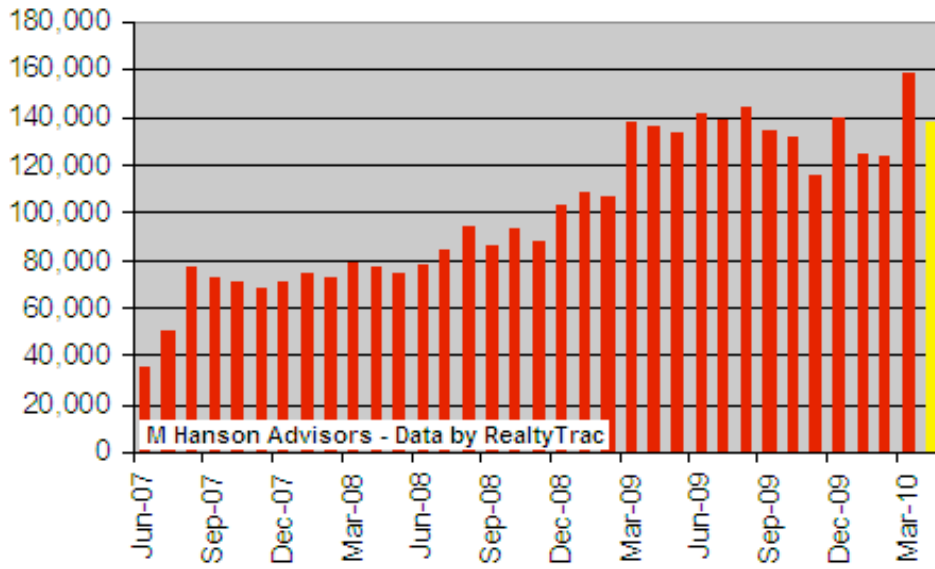
Total US Foreclosures (Last Stage)



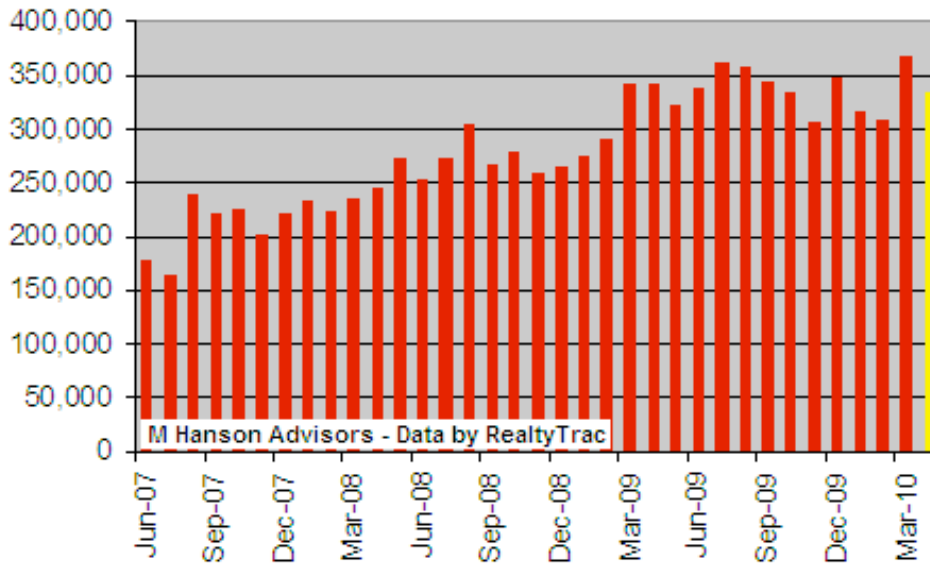
US Foreclosure Starts (1st stage - NOD/LIS)



Notice-of-Trustee Sales (2nd Stage - NTS/NFS)



Total US Foreclosure Activity (All Combined)



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