M Hanson Advisors – Real Estate & Finance

The Mortgage Pages **-** *May 18t 2010*

- **Bank's Go Crazy Levering Homeowners at Extremes Never Seen Before**
- **HAMP is Imploding - 1.25 Million Foreclosures Currently Hang in Balance**

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*

Based upon the April HAMP results due out tomorrow, the Treasury and banks have lost control of their primary re-leveraging platform. The April results prove that this Subprime, Alt-A, Pay Option hybrid-monster program called a 'HAMP loan mod' is an abject failure if its intent was really to permanently 'help' borrowers.

The results are so bad, something will have to be changed near-term to jam-up the system again or Foreclosures and HAFA short-sale and Deed-in-Lieu liquidations will surge uncontrollably.

This reports is more evidence that the reason why so many distressed borrowers suddenly vanished before hitting the 30-day late or Notice-of-Default stages in recent months -- making for rampant speculation that a fundamental change in consumer credit hard suddenly occurred literally overnight -- is that mortgage servicers went hog-wild allowing anybody with heartbeat into a trial mod. And not just on HAMP mods.

Because of the timeline of when the mod surge began, we have only felt the positive effects and not he negative redefault and Foreclosure effects. April's results absolutely point to most of these 1.25 million trial mods coming back around in short order as early-stage delinquencies, NOD's, Foreclosures or HAFA liquidations swiftly and often.

In four short quarters HAMP has gone through all the phases of the exotic loan bubble during the entirety of the bubble years...

1) only full-doc mods allowed at the beginning with little success - April '09 thru July '09
2) ease up on qualifications at the President's request allowing stated income - Aug '09 thru Mar '10
3) book a massive amount of loan mods during a short period of time -- Aug '10 thru April '10
4) realize that you made a big mistake and go back to full-doc only -- March '10
5) see mod production get cut in half MoM -- April '10
6) and the final stage yet to be played out…deal with a 90% failure rate -- Now thru ???

Summary

1) In April the average permanent-mod DTI moved up for a fifth months in a row to mind-bending 64.3%, from 55.4% in Jan, as lenders offer up even more leverage to borrowers than any Subprime lender during the bubble years. **Note…the 64.3% average borrower DTI is PRE-TAX**.

After taxes, food, utilities, transportation, clothing and everything else not included in the DTI calc, the average HAMP borrower is likely in a negative cash-flow situatiom. **Bottom line** - the average HAMP mod will redefault.

2) The average pre-modification DTI was a whopper 80.2% PRE-TAX casting light on just how over-levered homeowners at large really are. And these are the good borrowers - those that completed their trials and really want to keep their house.

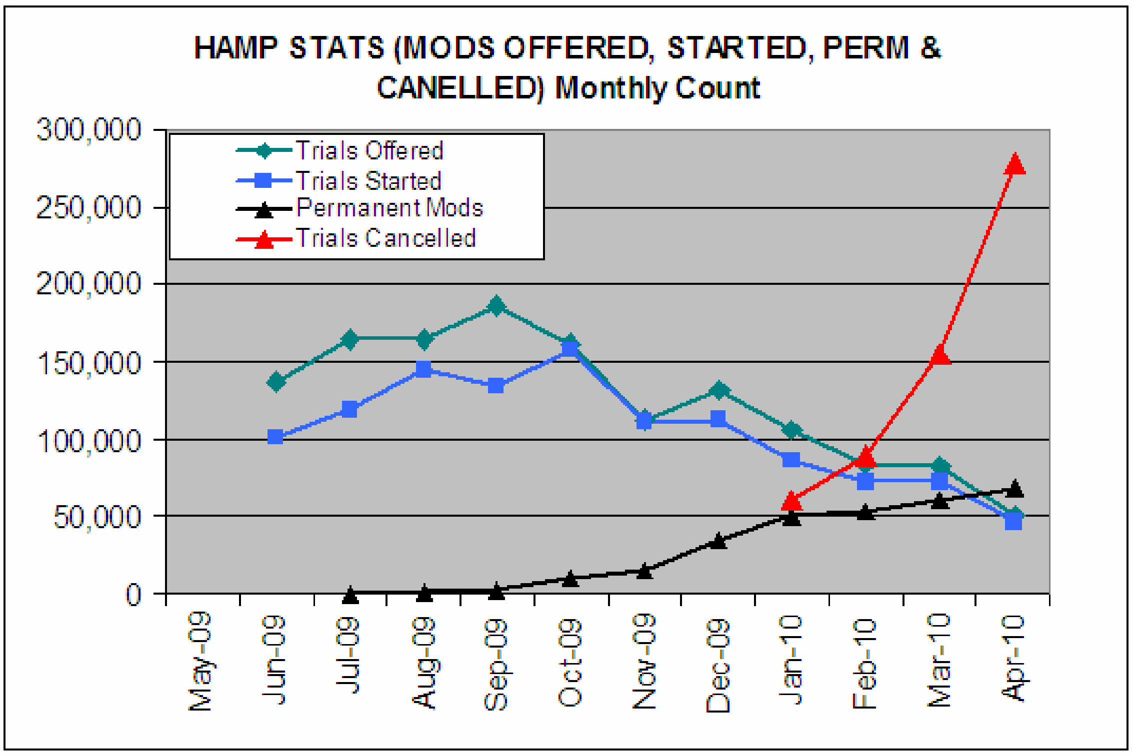
Select Median Characteristics of Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Median Decrease
Front-End Debt-to-Income Ratio[1]	44.9%	31.0%	-14.0 pct pts
Back-End Debt-to-Income Ratio[2]	80.2%	64.3%	-14.5 pct pts
Median Monthly Payment[3]	$1,427.80	$836.82	-$516.09

3) New trial mods offered and trial mod started tumbled to record lows, as the banks that began qualifying borrowers up-front ahead of the Treasury's June 1st deadline ran out of victims.

4) Permanent mods were up but so was the average DTI meaning they are shoe-horning unqualified borrowers into the program.

5) Cancelled trial mods are surging, as borrower realize mods are not a good deal (the only way to de-lever is to quit paying) and banks realize few really qualify.



In summary, this gigantic can kick experiment -- that has only served to re-lever bad borrowers in order to squeeze a few more months out of the default and foreclosure timeline -- is out of control and losing steam fast.

Up until now, we have only felt the positive factors of mods in decreased delinquencies, defaults and Foreclosures. But, based upon April's data and when the modification application and trial mod surge began, the leading edge of the modification redefault tide is upon and this additional channel of distressed loans and property is something few are expecting or modeling.

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