

M Hanson Advisors – Real Estate & Finance
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- HAMP 2.0 Misdirection Campaign to Begin Shortly

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

Get Ready -- HAMP 2.0 Principal Balance Reduction Misdirection Campaign to Begin Shortly

Analysis is beginning to pour out about how HAMP 2.0 debuting on June 1st will have such a positive impact on conversion and redefault rates. Over the next month you will be flooded with pr and more analysis from those who blindly think because the term "principal reduction" is in the title of the program, it is the one missing ingredient to success. It's hogwash.

Bottom Line:

- 1)** Why would bringing a borrower's loan balance to 115% of the property value over three long years have any impact on a borrower paying 64.3% of their pre-tax income to DTI debt (listed on their credit report) unless their income was so large the remaining 35.7% was enough to cover taxes and provide adequate monthly cash-flow?
- 2)** The 115% LTV and 150% LTV borrower, both with 64.3% DTI, are in the exact same position. Both are over-levered renter that can't refi, sell, rebuy, save, spend, or vacation. And what if house values drop?
- 3)** These are over-levered, underwater, troubled, Subprime borrowers by and large. If they weren't at loan origination most are now.
- 4)** Subprime and Alt-A loans during the bubble years never went to 64.3% DTI or 115% LTV. It was too risky. But HAMP 2.0 is supposed to perform better than legacy Subprime and Alt-A loans? Monthly payment de-leveraging (i.e. cramming down debt) is the missing ingredient and the HAMP 2.0 does not address this.
- 5)** What the HAMP 2.0 will do is bring lots of borderline borrowers into the program who otherwise would have made their payments, which will make the results look better than present-vintage HAMP.

In the near-term I expect servicer's will use HAMP 2.0 as a reason to kick the Notice-of-Default can further, as they run hundreds of thousands of HAMP 1.0 mods back through the system using the principal balance lure to entice borrowers into completing their trial mods and providing the information necessary to complete the mod, both of which are the primary challenges with 1.0. Perhaps this is in part the reason we saw seen NODs drop in April.

Best Regards,
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