

M Hanson Advisors – Real Estate & Finance

The Mortgage Pages - May 3rd, 2010

- [Banks Pulling a Fast One...Again. But, It's Already Unraveling](#)
- [Detailed Look at Defaults & Foreclosures Across All Loan/Property Types](#)
- [Earliest Available Look at April Foreclosure Data](#)
- [The Smoke Screen](#)

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

This report is a must read for anybody still torn over the sudden improvement in early stage delinquencies and defaults.

Of course early stage delinquencies improved in the past two quarters...the banks made it happen through massive legacy loan modification and restructuring initiatives that began in earnest in Q309 across all loan types, including **Agricultural, Apartment, C&I, Land, Manufacturing, detached Resi, and Condo**, all of which are detailed in this report.

Thus, this phenomenon has less fundamentally to do with "credit" than most realize. And because of inherently high re-default rates across all mods and restructurings, is only a temporary effect of which the greatest benefits are being felt now, before re-defaults create an entirely new channel of substantial default and foreclosure activity few are modeling.

Summary: In this report I analyze **real-time Workouts, Foreclosures and official Notices-of-Default (NOD) through April 30th taken from my proprietary database for all property types** in order to provide more clarity as to where each are in their respective distress lifespan.

This is the earliest look at April foreclosure data available anywhere and one of the few real-time reports I have ever seen that breaks loan performance down into this many individual loan types.

The findings vary wildly. **Commercial, Industrial and Agricultural; SFR, Condo and Manufactured houses; Apartment and Land** each have a unique default and foreclosure signature meaning they are all at different stages of distress.

In addition, I look at how the **recent, large-scale, aggressive legacy loan modification and workout initiative surge** has influenced the default and foreclosure timeline of events for each property type.

Beginning in earnest in Q3, as shown in the following charts, this surge has enabled the banks to avoid a rush of early stage delinquencies by kicking-the-can ever earlier in the delinquency process. At the same time, it has also provided a **smoke screen** behind which they are cranking up foreclosures across all loan types taking several such as Agricultural, Apartment, Commercial and Industrial Foreclosures to record highs for the first time ever and other property types such as detached Resi, Condo and Manufactured housing back to record highs.

What's brilliant about this calculated move is that the banks knew if they could get early stage delinquencies and NODs under control somehow -- even if only temporarily through aggressive and proactive modifications -- that more loans would be ultimately saved than if they sat on them, but also that the Street would reward them by giving the decline in early stage distress more weight than record-high Foreclosures because of what this decline has historically meant. But as we have learned the hard way over the past few years, the old play book is not necessarily in-play in these unprecedented times.

The Data - Bottom Line: As shown in the following reports since Q3 legacy loan workouts have soared, as lenders became much more proactive and aggressive across all property types. This has had the effect of bringing down early stage delinquencies and official Notices-of-Default, of course until the borrowing entity re-defaults, which will happen in most cases. At the same time, Foreclosures have been creeping higher with first-time record highs being seen across several loan types and repeat record highs across others.

These reports clearly show that **each property type is in a different stage of distress**. While residential SFR's have been influenced the most by mods so far **other property types such as Agricultural, Apartment, Commercial and Industrial have not seen such an improvement and look to be in the most distress right now**. In fact, unlike resi that hit record high Foreclosures in April but are still well off the highs with respect to NODs, some property types experienced continued record highs in both NODs and Foreclosures.

When looking at NODs, Foreclosures and Cancelled Foreclosures; the modification rush and historical re-default times; and the momentum of the default and foreclosure pipeline in April, it's hard not to assume that at this point, Q110 was as good as it get's for the 'early stage delinquency is improving' smoke screen. Once May data is in, I will be able to make more of a definitely call about Q2

And now for the data...

2) Foreclosures Down on SOME Loan Types as a Result of Aggressive Legacy Loan Workout Stance; Other's at Record Highs.

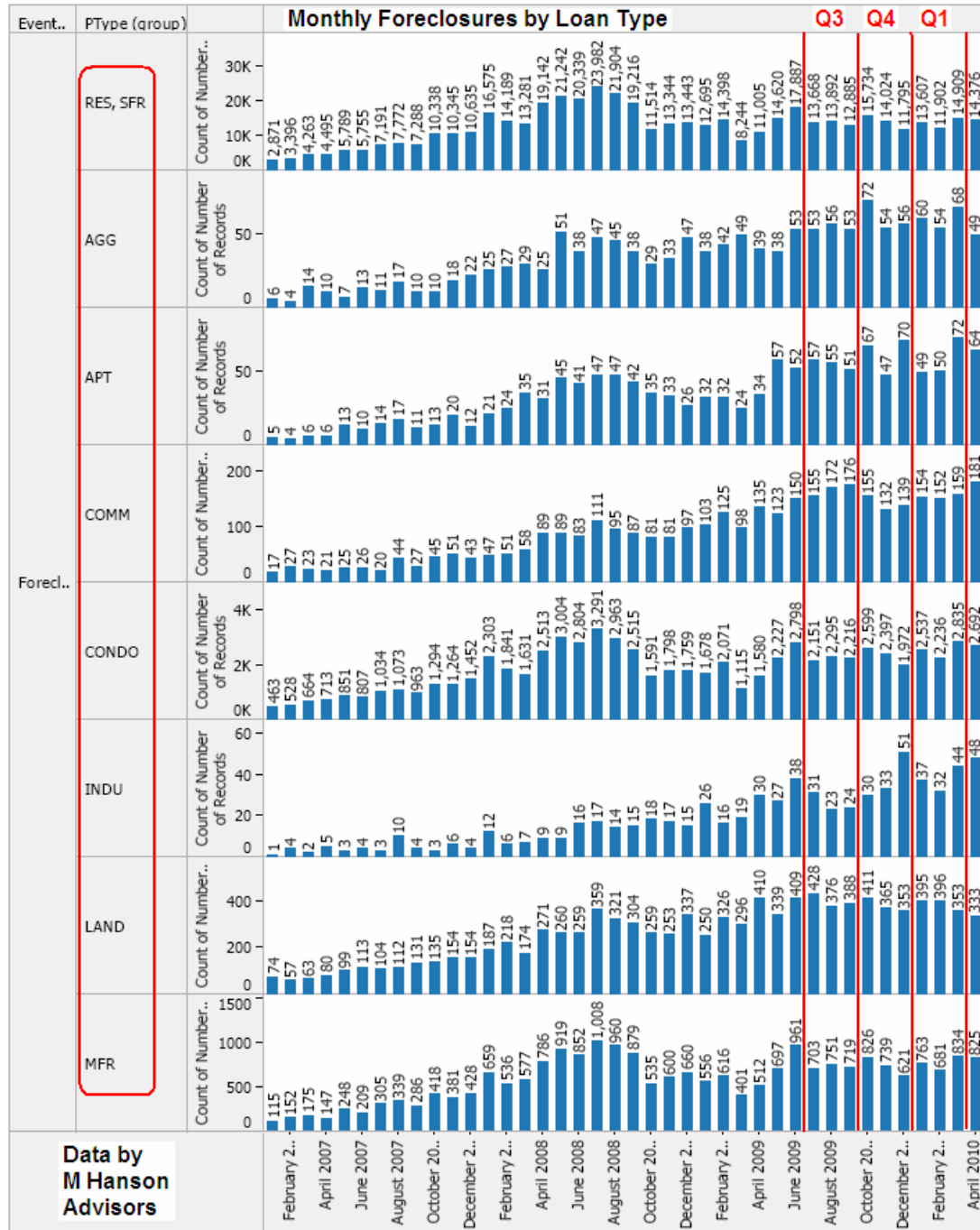
This chart of actual Foreclosure across all loan types is for activity through last Friday, April 30th.

As shown below, Resi detached (top row) has benefited the most by loan mods. But all Resi is not created equally as evidenced by **Condos and Manufactured** houses, which have not benefited nearly as well. **Land** is the stand-out as the smoothest trend and best looking chart if one were trying to make the argument that Foreclosures have permanently peaked.

But by far the most interesting is **Agricultural, Apartment, Commercial and Industrial**, that unlike Resi, are experiencing record high Foreclosures for the very first time and based upon the run rate of Notice-of-Trustee Sales, are only getting started.

*Note, that April had one less business day than March, therefore for an apples-to-apples MoM comp, April has to be grossed up 4.55%. When doing so, the pace of total Foreclosures once again increased in April. Also note that because this is the West region, resi Foreclosures are not showing record highs, but do reflect them in the last chart of this report highlighting national activity.

Actual Foreclosures by Property Type - Through April 30th



3) NOD's also Down for Some Loan Types as a Result of Aggressive Legacy Loan Workout Stance but Other's Not Benefiting as Much

The NOD stage -- early stage Defaults -- has benefited the most from the recent push in proactive and aggressive mods and restructurings. Note that because NODs are up to 10-days delayed, April's results are not shown here unlike the two previous charts.

Bottom Line - The Q3 through Q1 surge in Cancelled Foreclosures and the drop in NOD's correlate perfectly.

Resi NOD's below are lagging other loan types but with the changes to HAMP coming on June 1st, most notably the online application portal and full qualification necessary to go into a trial mod vs allowing everybody with a good story into a trial over the past nine months, I expect NODs to continue to rise. This is because at the present time, HAMP is essentially a stated income program for the purposes of going on trial and when that changes, so will the number that qualify.

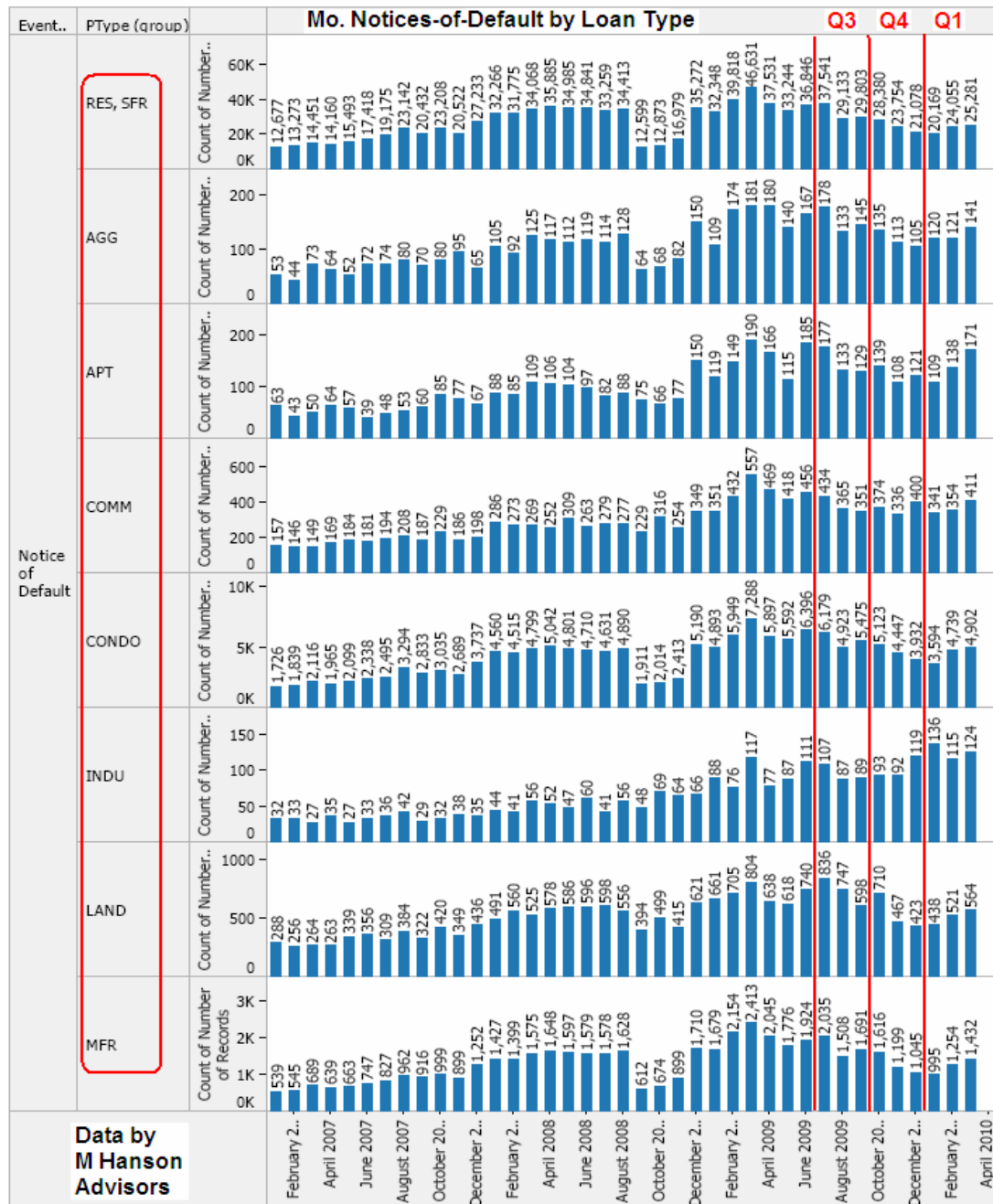
Once again here, **Agricultural, Apartment, Condo and Industrial** are experiencing the greatest stress and should continue to surprise throughout 2010.

But regardless of property type, Q1 brought a notable NOD up-tick across all property types. This is because with the workout surge beginning in Q3, the leading edge of the re-default curve is upon us now.

When a re-default happens, the loan will get an immediate NOD unless at the time the workout was done post-NOD, in which case a Notice-of-Trustee Sale can be filed leading to liquidation within a month or two.

What's so interesting about post-NOD re-defaults is many will be off the radar unless you are looking in the right place because **a Current-to-30 day late could be the exact same event as a Foreclosure liquidation**, as workouts fail. **This is something never seen before to any great degree** but will be completely captured in real-time through our proprietary default and foreclosure tracking.

Notices-of-Default by Loan Type - Through March 30th (NOD data up to 10-days delayed)



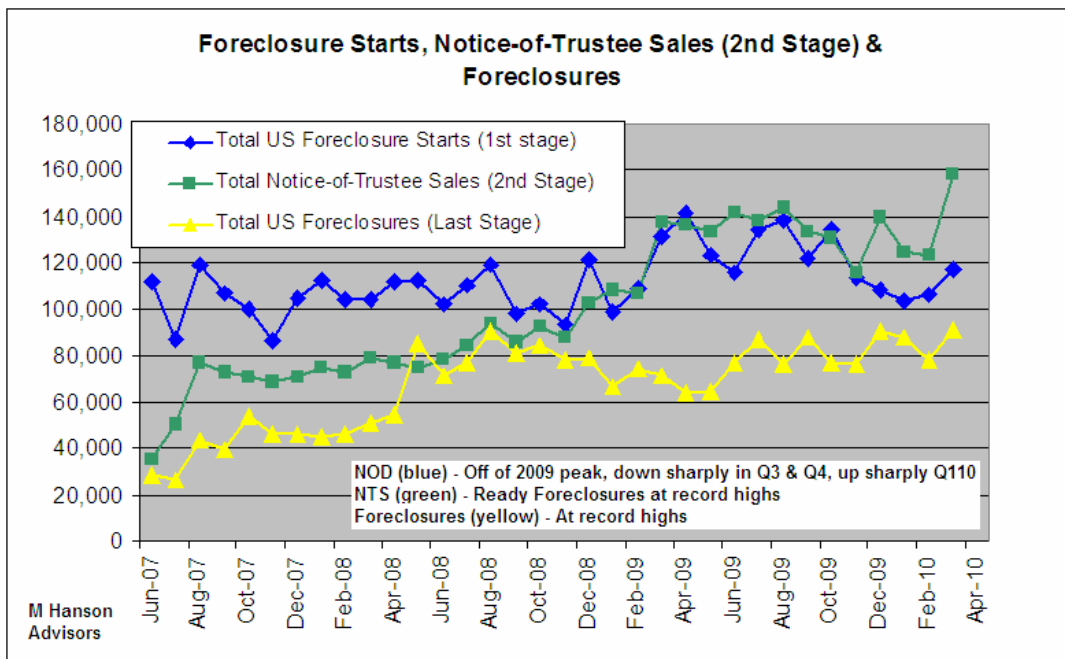
4) The Smoke Screen

The chart below captures national Notices-of-Default (blue), Notices-of-Trustee Sale (green) and Foreclosures (yellow) across all loan types. As NODs have declined notably from their 2009 peak and bank's brag about early stage delinquencies and defaults getting better, NTS's and Foreclosures have been creeping higher until both hit record highs in March.

This perfectly highlights how they are making you look one way while juking the other. **The record high Notices-of-Trustee Sale are particularly impressive and interesting**, as the mega-loan mod and restructuring drive has only been in place for six to nine months and the most recent month's NTS's are undoubtedly reflecting an increase in post-NOD modification redefaults, which are essentially a secondary channel of newly distressed loans, few are looking for.

In fact, some of the NTS's, which would historically have been in the foreclosure process for several months, are actually loans that have only been technically delinquent for 30-days and because they are a re-default are not only an early stage delinquency but also a late-stage default. **This brand new dynamic is sure trash most forecaster's models.**

Bottom Line - When looking at NODs, Foreclosures and Cancelled Foreclosures; the modification rush and historical re-default times; and the momentum of the default and foreclosure pipeline in April, it's hard not to assume that at this point, Q110 was as good as it get's for the 'early stage delinquency is improving' smoke screen. Once May data is in, I will be able to make more of a definitely call about Q2.



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 Mark Hanson
Mark@MHanson.com
www.MHanson.com

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