

M Hanson Advisors – Real Estate & Finance

The Mortgage Pages - June 25th 2010

- **Bank's Lose Control of Primary Homeowner Re-leveraging & Loan-Loss Realization Platform**
- **New-Era Residential "Credit" at Critical Inflection Point**
- **Bank-Specific Actions -**
 - o **JPM Remains King of Can-Kicking**
 - o **WFC Reverts back to its Bubble-Years Exotic Loan Leader Ways**

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 May HAMP stats released this week, **Treasury and banks have completely lost control of their primary homeowner re-leveraging and loan loss realization extension platform.**

The results prove that this hybrid Subprime, Alt-A, Pay Option monster creator called 'HAMP' is an abject failure if its intent was really to permanently 'help' borrowers. If its intent was to buy time for banks and mortgage investors before the day of reckoning, it was far more successful.

The results are so bad, I would not be surprised to see sweeping changes or new laws on a national or state level forbidding property seizure near-term in order to jam-up the system again or foreclosures and short-sale liquidations will continue hitting record highs month after month, overwhelming the existing house supply chain and negatively impacting the distress-to-organic mix-shift, a **sales volume positive but significant house price negative.**

In addition, HAMP hitting a saturation wall is **extremely negative for new-era residential mortgage "credit"**. The sharp ramp in mods -- with servicers allowing anybody with a heartbeat into a program beginning in q309 -- is a primary reason so many distressed borrowers suddenly vanished before hitting the delinquency and Notice-of-Default stages in recent months making for rampant speculation that a fundamental change in consumer credit suddenly occurred literally overnight. But now, we are passed the 'can-kicking by modification' inflection point, which should have the **opposite effect on "credit"** over the near-to-mid term.

This is especially true, as **re-defaults begin to occur in earnest.** Because of when the mod surge first began, we have only felt the positive effects and

not be negative redefault and Foreclosure effects of mods. May's results absolutely point to most of the **1.25 million HAMP trial mods** -- and **two million plus private label home retention actions** -- coming back around in beginning in short order as early-stage delinquencies, NOD's, Foreclosures or HAFA liquidations **early and often**.

The easy mod demand has been filled and millions are too far out of scope or simply too smart for this type "help". The new HAMP 2.0 principal reduction plan will kick up volume to some degree but only because it will draw in applicants that could have otherwise made their mortgage work, but since the gov't is giving a hand out a free gift of this size, why not take it. A principal balance reduction to 115% LTV is worth a few years of ruined credit for some.

One of the most fascinating aspects of the entire 'can-kicking by mod' experiment was that in four short quarters HAMP has gone through all the phases of the exotic loan bubble during the entirety of the bubble years...

Stage 1) only full-doc mods allowed at the beginning with little success - April '09 thru July '09

Stage 2) ease up on qualifying at Government's request allowing stated income - Aug '09 thru Mar '10

Stage 3) book a massive amount of loan mods during a short period of time -- Aug '10 thru Mar '10

Stage 4) realize that you made a big mistake and go back to full-doc only -- March '10

Stage 5) mod production gets cut in half MoM -- April '10

Stage 6) new mod offers and trial volume virtually dry up, down 85% and 70% respectively -- May '10

Stage 7) and the final stage yet to be played out...deal with a 90% failure rate -- Now thru ???

May HAMP Summary

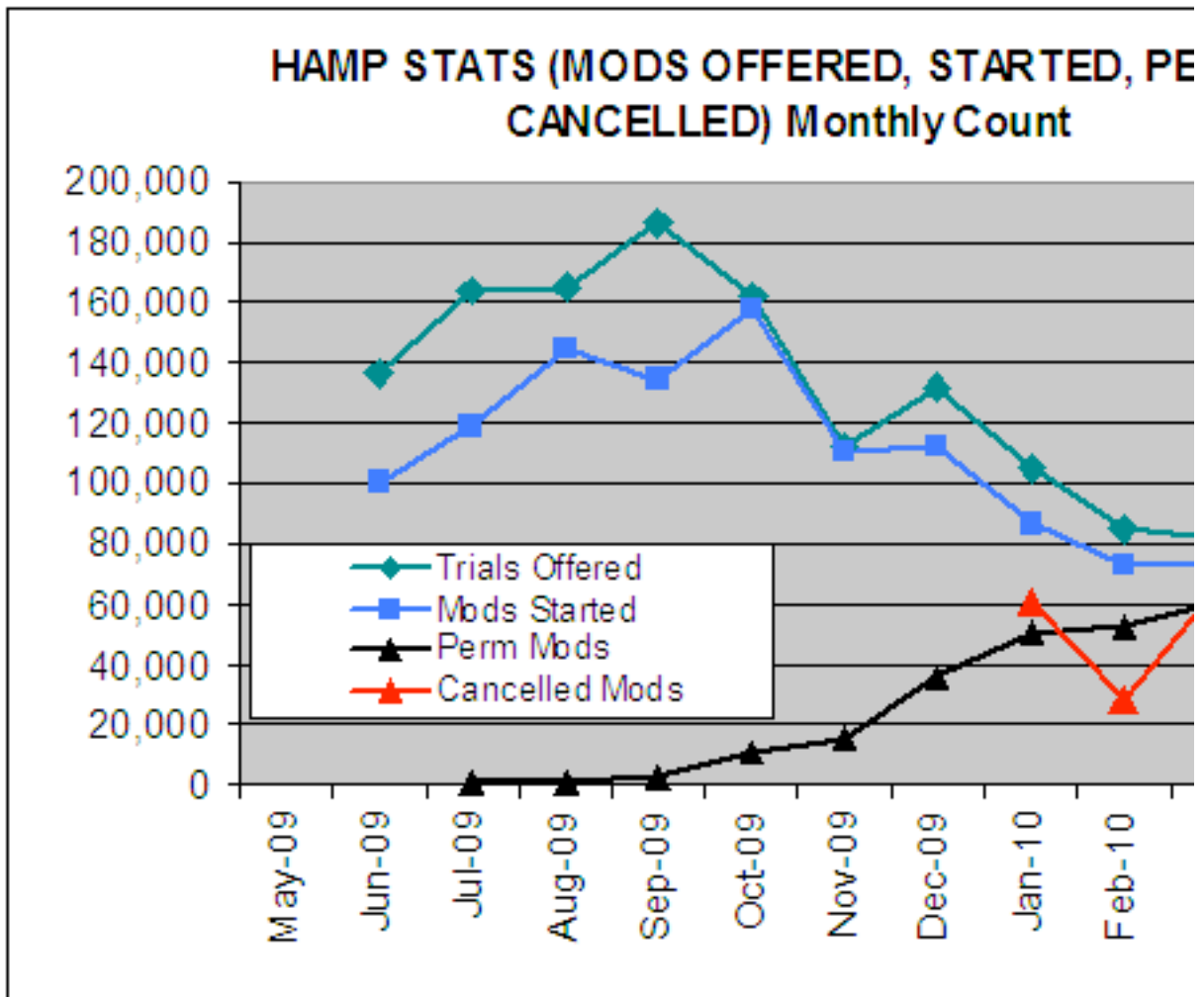
1) New trial mods offered (green) **and trial mod started** (blue) **tumbled to record lows**, as some of the banks that began qualifying borrowers using the new fully documented method ahead of the Treasury's June 1st deadline ran out of victims.

2) New permanent mods (black) were down for the very first time, a critical

inflection point.

3) **Cancelled trial mods** (red) **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.

Monthly HAMP Stats - Mods Offered, Started, turned Permanent, and Cancelled



May HAMP Leverage Stats

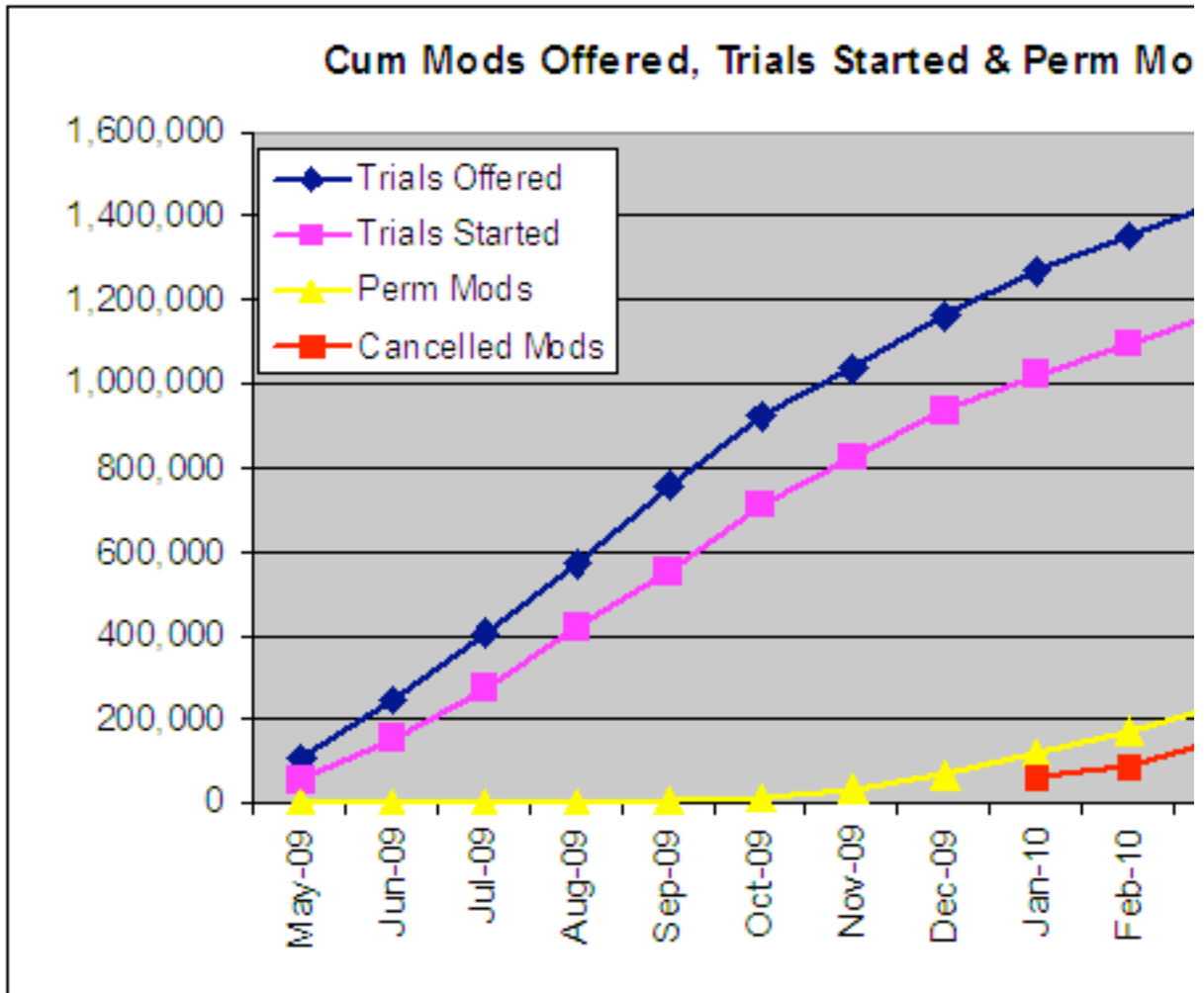
4) In May, **the average permanent-mod debt-to-income** ratio moved down for the first time in months but remains at a level far more aggressive than the bubble-years...63.8% from 64.3% last month. It makes no difference, as

both equate to such extreme household leverage that most will re-default. And this is calculated 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 situation. **Bottom line** - the average HAMP mod will fail.

5) **The average pre-modification DTI was a whopper 79.8% pre-tax, down from last month's 80.2%** casting light on just how over-levered homeowners at large really are.

Loan Characteristic	Before Modification	After Modification	M
Front-End Debt-to-Income Ratio ¹	44.8%	31.0%	-13
Back-End Debt-to-Income Ratio ²	79.8%	63.8%	-14
Median Monthly Payment ³	\$1,425.53	\$836.85	-

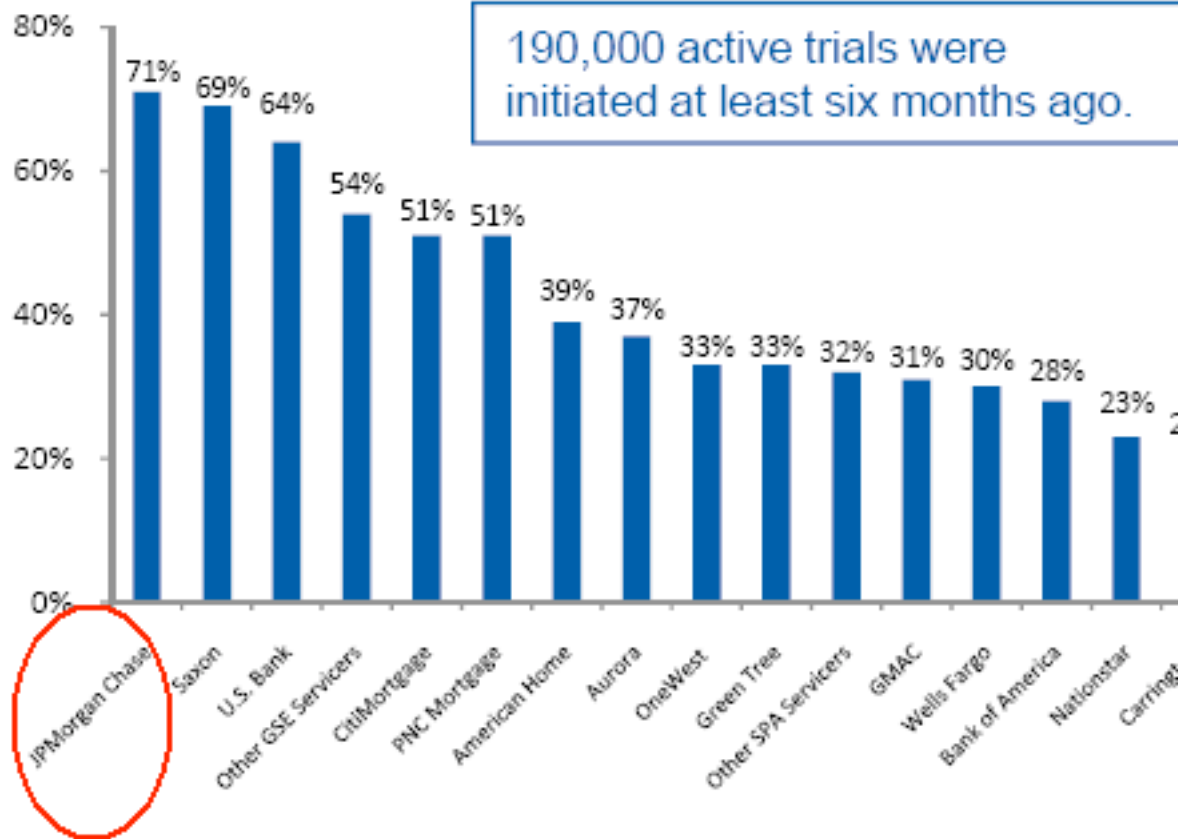
Cum HAMP Stats (new mod volume drying up while Cancelled mods surging)



Interesting Bank-Specific HAMP Highlights

Chase, the King of Can-Kicking, can't -- or doesn't want to -- convert trial mods to save its life. From what I know about their **WaMu Pay Option portfolio**, the same is occurring. Point being, if you are a distressed Chase mortgagee you have no worries. Just don't pay. There is little risk of them taking your house.

Aged Trials¹ as Share of Active Trials



Wells Fargo is sticking true to its bubble years lending philosophies as the **King of Alt-doc mods**. However, as a percentage Citi, a much smaller servicer, wins out. Being so successful in Alt-doc mods sheds a lot of light into their can-kicking prowess and how they are treating portfolio loans.

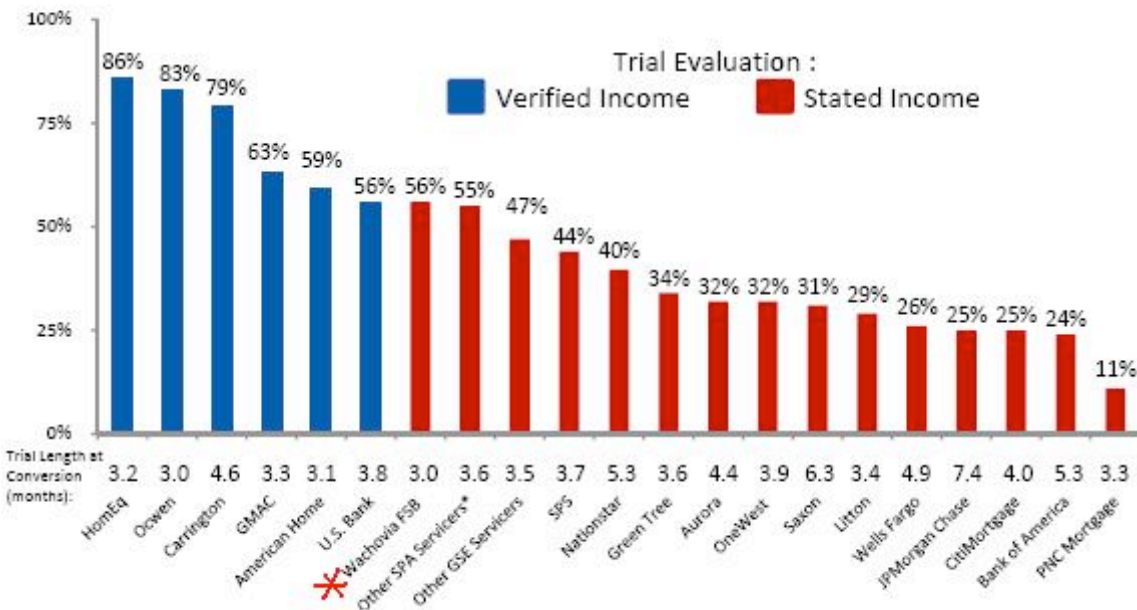
Disposition Path Trials Canceled Through April 2010 (8 Largest Servicers) ¹

Borrowers who are in, or are in the process of receiving:					
	Total (As of April 2010)	Borrower Current	Alternative Modification	Short Sale/Deed in Lieu	Foreclosure ⁴
American Home Mortgage Servicing, Inc.	147	50	6	--	8
Bank of America, NA ⁵	29,712	1,286	13,928	489	336
CitiMortgage Inc.	60,607	6,556	26,446	23	5,083
GMAC Mortgage Inc.	7,987	1,039	3,808	251	652
JP Morgan Chase Bank NA ⁶	25,179	4,080	8,113	187	0
Litton Loan Servicing LP	6,197	617	389	277	1,223
OneWest Bank	4,317	209	960	378	861
Wells Fargo Bank NA ⁷	59,910	5,103	41,188	2,454	5,501
TOTAL (These 8 Servicers)	194,056 100%	18,940 9.8%	94,838 48.9%	4,059 2.1%	13,664 7.0%

Roughly once per month, I put out a proprietary data on the real-time Notice-of-Defaults and Foreclosures for **Wachovia Pay Option ARMs** in order to keep up with Well's obfuscation. The results are that Wells has been slowly ramping up action on these loans for months straight but defaults and foreclosures are only running a small fraction of potential.

With respect to their modification activity, it is difficult to discern what they are doing. However, this chart included in May's HAMP report sheds some light. **Bottom line** - without stated income portfolio mods, which will re-default at unparalleled rates I am certain, Wachovia Pay Option defaults and foreclosures would already be sky-high significantly eating into tiny benefit they took on one of the most toxic portfolio of loans ever originated.

Conversion Rate¹



In summary, this gigantic can-kicking 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.

Without significant changes fast, or national or statewide foreclosure moratoriums, foreclosure and short sale liquidations will naturally continue to hit records each month, which is a house sales volume positive but significant house price negative, especially with total sales volume weak post tax-credit.

Up until now, we have only felt the positive factors of mods in decreased delinquencies, defaults and Foreclosures, which has lead to an artificial improvement in residential mortgage "credit". But, based upon May's data can-kicking has done all it can and based upon when the modification application and trial mod surge began, the leading edge of the modification redefault tide is upon us and this additional channel of distressed loans and property is something few are expecting or modeling.

**Best Regards,
Mark Hanson**

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