

My apologies for not providing our usual, thoughtful, colorful and sometimes *long-winded* monthly default and foreclosure note but I lost most of this week so far from both of my kids being down with Giardiasis, the doctor thinks they got from swimming lessons.

Bottom line: Giardiasis sucks.

Bottom line on July defaults and foreclosures: No big surprises

1) Actual foreclosures (final Foreclosure stage) were up approximately 12% MoM and 10% YoY back to record highs. However, because several servicers went easy on those most effected by the oil spill, I am not exactly sure how the totals will get reported.

It is also very important to note that RealtyTrac does not track 'third-party sale Foreclosures', which are properties purchased by a private party for cash at the courthouse steps; they only count Foreclosures that went back to the bank as REO. A couple of years ago when 95% of all Foreclosures went back to the bank as REO this was fine. But over the past couple of years third-party sale Foreclosures have grown to over 20% in the bubble states meaning **RealtyTrac significantly under counts**. When adding back third party sale Foreclosures, national foreclosure counts ytd 2010 have averaged 107k per month vs RealtyTrac's reported 89k.

2) Notice-of-Trustee Sales (2nd Foreclosure stage) were down roughly 15% MoM and 20% YoY. A Notice-of-Trustee Sale is filed just before the actual foreclosure event...I usually refer to this as the 'Foreclosure imminent stage'.

Because this drop happened suddenly after NTS have remained consistently elevated all year -- and because there are simply so many millions of loans in the distressed pipeline -- this is a not fundamental move. It is more than likely certain large servicer's kicking the can due to HAMP 2.0 kicking off soon.

A good example of this is Chase cancelling 10k WaMu Pay Option ARM foreclosures in the past two months alone. Because these were cancelled there was no need to file an NTS three weeks before the Foreclosure event.

3) Notice-of-Default (1st Foreclosure stage) were up roughly 3% MoM but down 30% YoY. This YoY drop is absolutely due to the aggressive mortgage modification campaigns that began in earnest with HAMP in late q209. Because the mortgage mod application pig gave the python maximum girth in late q409 through q110 -- and because trial mods last 3 to 5 months -- the leading edge of the redefault wave is upon us now, which means NODs should continue to remain elevated.

4) Cancelled Foreclosures (Modified or Cured Foreclosures) were surprisingly down 9% MoM, but up a whopping 100% YoY.

Again, this is a metric RealtyTrac does not track but which is extremely important to those tracking NPA's for whatever reason. This is because most Cancelled Foreclosures are due to trial mods, which fail in most cases even before they turn into permanent mods. And with so many millions of new modifications put on the street they will become an entirely new channel of distressed loans few include or quantify in their research.

Tracking Cancelled Foreclosure momentum is also of paramount importance because they are a leading indicator of residential credit. This is because they were instrumental to the vast *improvement* in resi credit over the past couple of quarters, as millions of modifications turned distressed borrowers into temporarily current borrowers overnight.

Summary: How RealtyTrac will report this, especially with the gulf-states being a wildcard, is up in the air.

But based upon our proprietary data, which tracks even more elements of the default and foreclosure process, RealtyTrac should report their **headline number**, which combines all stages of Foreclosure together in effect triple-counting, up 3% to 5% MoM at 325k but down 9% from last year. What could stand out, however, is that actual Foreclosures are again at record highs after dipping slightly in June.

Best Regards,

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