

## M Hanson Advisors – Real Estate & Finance

*The Mortgage Pages - August 3<sup>rd</sup> 2010*

- [STI - Q2 Resi NPA Correction and Update \(Much Worse than I Reported\)](#)
- [CMA - Extreme Can-Kicker or Out of the Distressed Loan Woods?](#)
- [JPM - Continued Extreme WaMu Pay Option ARM Can-Kicking](#)

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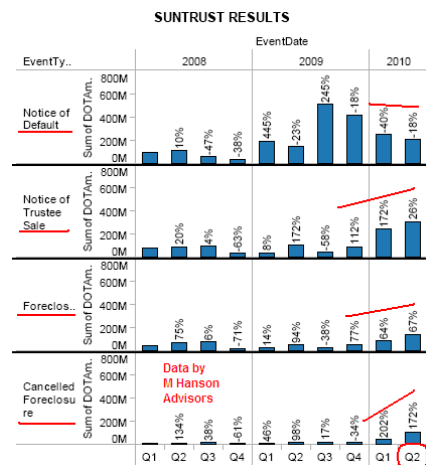
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But upon closer examination I realized that I accidentally filtered out April NPA results. Therefore, **the STI q2 numbers I presented to you in early July that showed a sharp improvement over q1 were missing an entire month.** When adding back the month, their q210 results look much closer to what they reported on their earnings call -- see chart below.

**Bottom line:** STI is still working through a jam-packed distressed resi loan pipeline and with an 18-month NOD-to-Foreclosure ratio, which I have dubbed the 'shadow foreclosure ratio', of only 22% -- and their Cancelled Foreclosure pace absolutely surging for the past two quarters -- they will not be done working through it any quarter soon.

### Corrected Quarterly Official NOD through Foreclosure Results



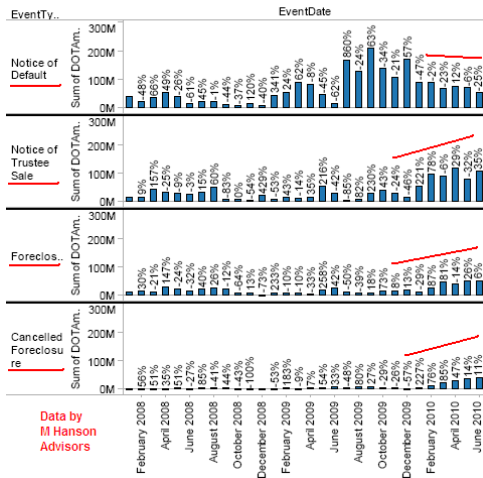
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### STI Monthly Official NOD through Foreclosure Results

The data below are the same as above but monthly. This better highlights the wave of Foreclosures in the pipe that will come from the wave of NTS, which began in January and feed them.

**SUNTRUST RESULTS**



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**2) CMA - Extreme Can-Kicker or Out of the Distressed Loan Woods?**

CMA results have bugged me for several quarters. People tell me all the time, they are one of the best C&I lenders in the world. Maybe so. But their official NOD through Foreclosure detail may say something different.

**What I find most interesting about their NPA activity how many loans go into the Notice-of-Default funnel and how few come out of the other side as Foreclosures or Cancelled Foreclosures.**

Over the past 18-months their NOD-to-Foreclosure ratio, which I call the "shadow foreclosure" ratio, is at only 11%. Their NOD-to-Cancelled Foreclosure ratio, typically indicative of how active the lender is at restructurings, is at only 3%, which astounds me.

**This activity is inconsistent with most all other lenders** other than a few with notably worse reputations. This type of activity is indicative of a can-kicker bank with a lot of pent-up loss exposure.

**Bottom Line:** This bank has a consistently high rate of NOD for months running and they simply evaporate before final Foreclosure or Cancelled Foreclosure resolution. Perhaps this is nothing at all but it is such a departure from all other bank's reports it has to raise red flags all around.

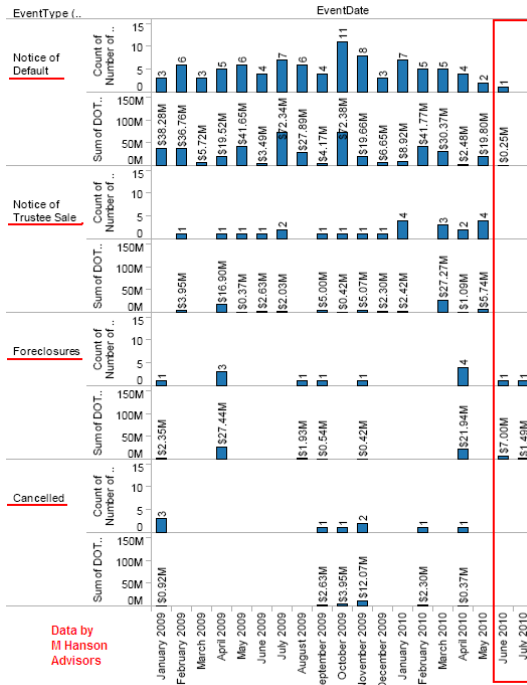
**June Bright Red-Flag**

Beginning in June things got even stranger. CMA literally shut-off their NOD and Foreclosure processing machines. For the entire region that I cover at the loan-level in real-time, **CMA only filed one NOD for \$250k, which is 95% below their past 12-month monthly average and one foreclosure for \$7mm.**

**Then in July, the same thing happened...**one NOD and one foreclosure. This is plain, odd. How can a bank with such a consistent pace of NOD suddenly show virtually nothing? In June did they begin a new ultra-aggressive can-kicking initiative or did they suddenly emerge from the distressed loan woods in a single month when no other lender did?

Shown below are CMA's monthly official NOD through Foreclosure results with the June and July sudden absence of distress activity highlighted in red.

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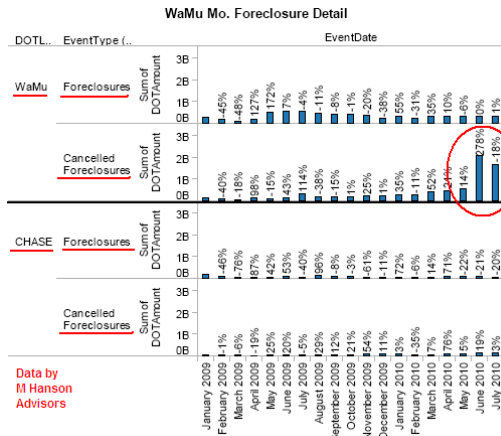
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3) JPM - Continued Extreme WaMu Pay Option ARM Can-Kicking

In an early July report, I highlighted how that in June Chase cancelled the majority of WaMu Pay Option ARMs slated for Foreclosure. This involved thousands of foreclosures for over \$2 billion. In July, they stuck with the trend but had slightly fewer to cancel after such a surge.

Bottom line - over June and July Chase unilaterally cancelled nearly \$4 BILLION in Pay Option ARM Foreclosures in the regions I can see at the loan level detail, which is roughly 80% of WaMu's total distressed dollar volume.

As an example of how extreme of a move this is, I included Chase portfolio Foreclosures and Cancelled Foreclosures below the WaMu data, which clearly show this was a calculated move by Chase specifically targeting WaMu Pay Option ARMs for one reason or another.



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4) Below is my original Chase note on the topic from early July.

(RE-PRINT) 7-5-10...What's Chase up to?!

In going through volumes of proprietary q2 resi and non-resi bank default and foreclosure data this weekend preparing to release much easier to understand and quantify QoQ and yoy npa reporting for q2 earnings, there are many notables like Chase's sudden, unilateral move in June to cancel a massive quantity of WaMu Pay Option ARM foreclosures that I pointed out last week.

This weekend I noticed that the Chase plot thickened. Not only did Chase suddenly cancel most WaMu June Pay Option Foreclosures making for the single largest MoM change ever in this dataset in my database, but they also cancelled a massive amount of June Long Beach Mortgage (subsidiary of WaMu) Subprime foreclosures.

As a sidebar, this illustrates perfectly how unilateral moves from only one of the big-4 servicers can have such an impact. This move involved such a large quantity of loans that Chase singularly altered the "credit" outlook for Pay Option and Subprime whole loans and MBS when everybody studies their June LoanPerformance data they get later this month, more so on the Pay Option side because of the larger quantity of cancellations and fewer loans outstanding.

The chart directly below shows Chase's sequential cancelled foreclosure action for originations by lender involved. Also included are Chase originations in order to show this move was WaMu specific.

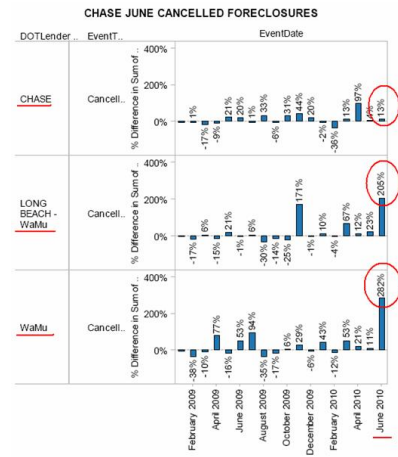
Why in June? Why so many loans? Why only WaMu and Long beach and not Chase loans? I have no clue. Perhaps now that the WaMu portfolio is turning out to be much nastier than they thought going into this first big bank failure and acquisition that had far fewer concessions than later deals structured by the FDIC -- and with JPM earnings and guidance likely impacted on several fronts in q2 -- they needed to make

this channel look brighter. With this move, they can now legitimately say that in q210 WaMu foreclosures were flattish QoQ and down YoY to match Notice-of-Default trends (due to aggressive mortgage modifying). **Without this move the WaMu channel was looking at a sharp rise in foreclosures QoQ.**

Another explanation is that .gov has a plan for all these toxic loans in the near-term and Chase plans on taking advantage. But I would think others would show this same sort of cancelled foreclosure activity if this were the case.

Or perhaps, Chase is just overwhelmed with WaMu distressed loans and decided to shut down the foreclosure process in order to regroup. Who knows, but this is such an extraordinary event that it does mean something is afoot.

**One thing is for sure**, Chase has been the Foreclosure can-kicking leader in recent months and this move takes them to the next level.



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Best Regards,  
**Mark Hanson**  
[Mark@MHanson.com](mailto:Mark@MHanson.com)  
[www.MHanson.com](http://www.MHanson.com)



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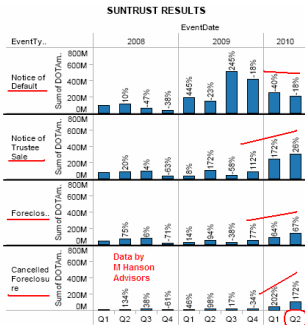
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**CORRECTED Q2 STI OFFICIAL NOTICE-OF-DEFAULT THROUGH FORECLOSURE RESULTS**



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