

# M Hanson Advisors – Real Estate & Finance

*The Mortgage Pages - September 2<sup>nd</sup>, 2010*

- [August Bank-Originator, Servicer-Specific and MERS Default & Foreclosure Activity](#)
- [Banks Got the Liquidation Jump in August](#)

*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*

## Overview

Like yesterday's report, today's drills down on **August residential default and Foreclosure activity** - the earliest look at August resi credit available anywhere.

As highlighted yesterday, millions of properties stuck in perma-default are beginning to break lose and roll towards their ultimate outcome as Foreclosures.

In my first series of reports for the new-year my thesis was for Foreclosures to grow to record highs if for no other reason than **osmosis**. In part, this is exactly what is happening. But another reason is because of the **unintended consequences of mortgage mods** -- giving bad, underwater borrowers in default more leverage in hopes they will make their payment -- in the form of a brand new channel of defaults and Foreclosures vis-a-vis redefaults.

Despite some big banks and servicers being more aggressive (**BofA**) than others who perennially kick the can (**Chase**), the record Foreclosures month after month -- and in recent months the turn around and move higher in early and late stage defaults, as measured by Notice-of-Defaults and Notice-of-Trustee Sales -- has remained relatively orderly.

**In this report**, I show exactly where the momentum in NOD, NTS, Foreclosures and Cancelled Foreclosures is coming from by looking at **monthly aggregate data from the top bank-servicers, bank-originators and MERS**, the latter a proxy for the securitized universe (performance varies greatly depending upon ownership of the loan).

**By looking at the top players in the market in this manner in real-time, it sheds a lot of light into the underlying nature of the moves, where the**

differences lie (i.e. banks acting differently on loans they own vs loans they service) and what will happen next to millions of distressed loans that have the potential to bring tremendous pain to the real estate market and financials for years to come.

## Reports

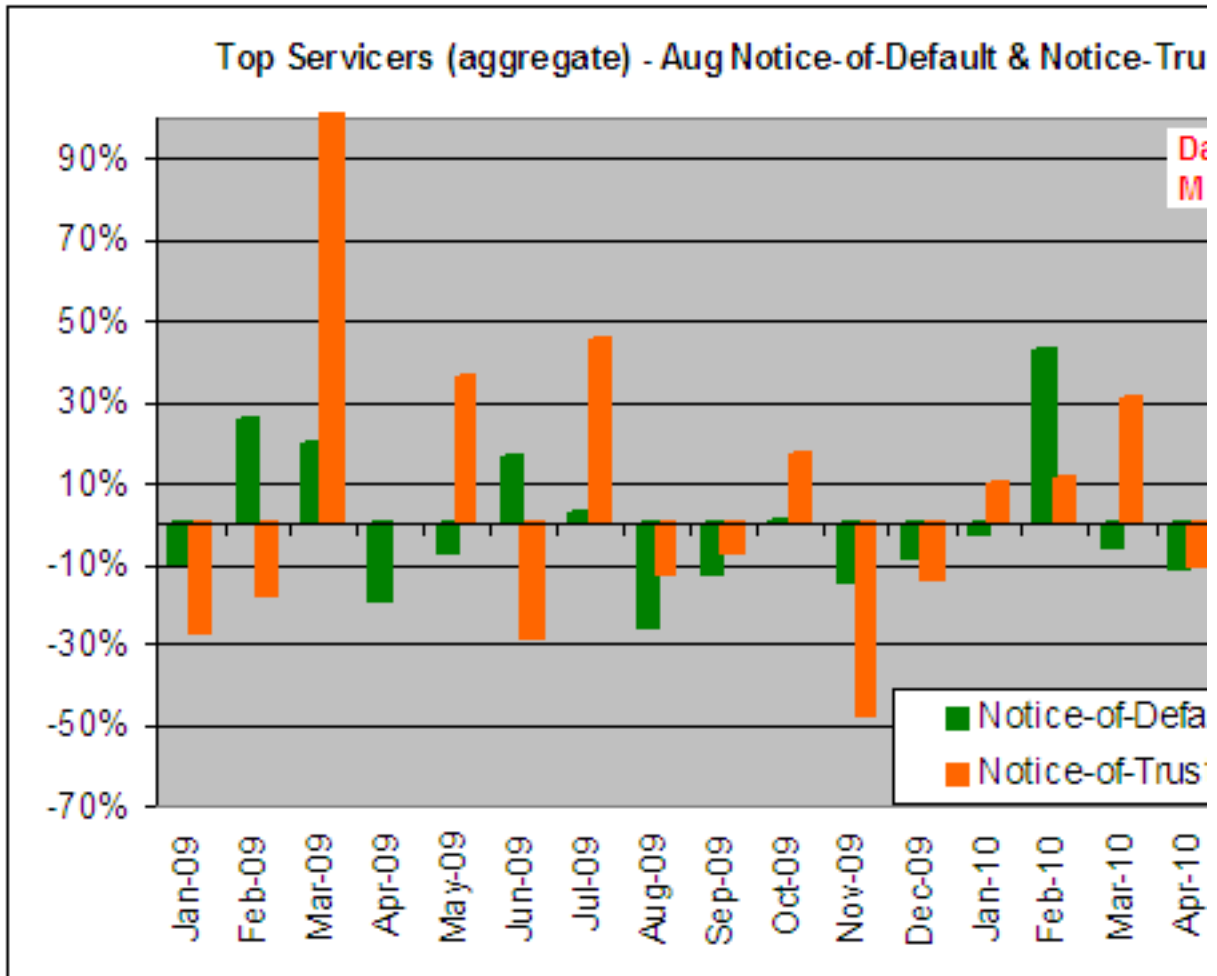
The first three charts are of early and late stage defaults as indicated by Notice-of-Default and Notice-of-Trustee Sale volume and momentum. The last three charts are of Foreclosures and Cancelled Foreclosures, the latter indicative of loan mods.

### Notice-of-Default & Notice-of-Trustee Sale Activity - by Bank, Servicer, and MERS

1) At the nation's top servicers, NOD have increased for three straight months. NTS (late stage/foreclosure ready loans) have increased three of the past four months but not with as much velocity.

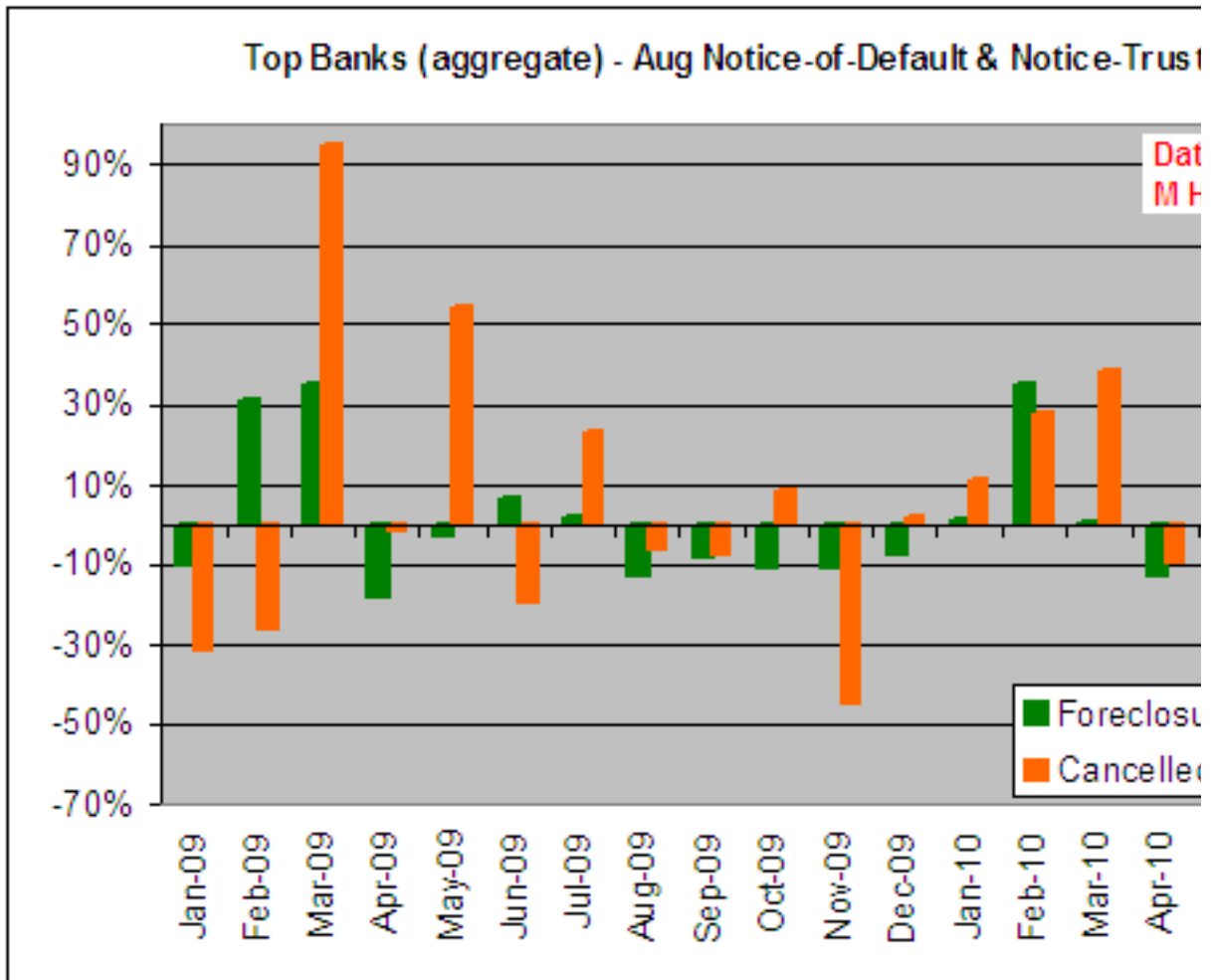
The reason for this is two-fold... 1) mod redefaults, which are just starting to kick-up, are coming back as NOD 2) and while NOD were hit hard over the past year due to aggressive and pervasive mortgage mod initiatives, NTS remained relatively high due to mod fall-out and early stage redefaults.

The bottom line is that the past few months of servicer-specific NOD and NTS activity show that the distressed loan pipeline has begun to grow once again after being artificially suppressed for year due to mods.



2) At the nation’s **top bank loan originators/holders**, on loans they originated and still service indicating potential ownership or liability, **NOD** were also up three months in a row but at a greater pace than on loans they service for others. With respect to **NTS**, the same can be seen.

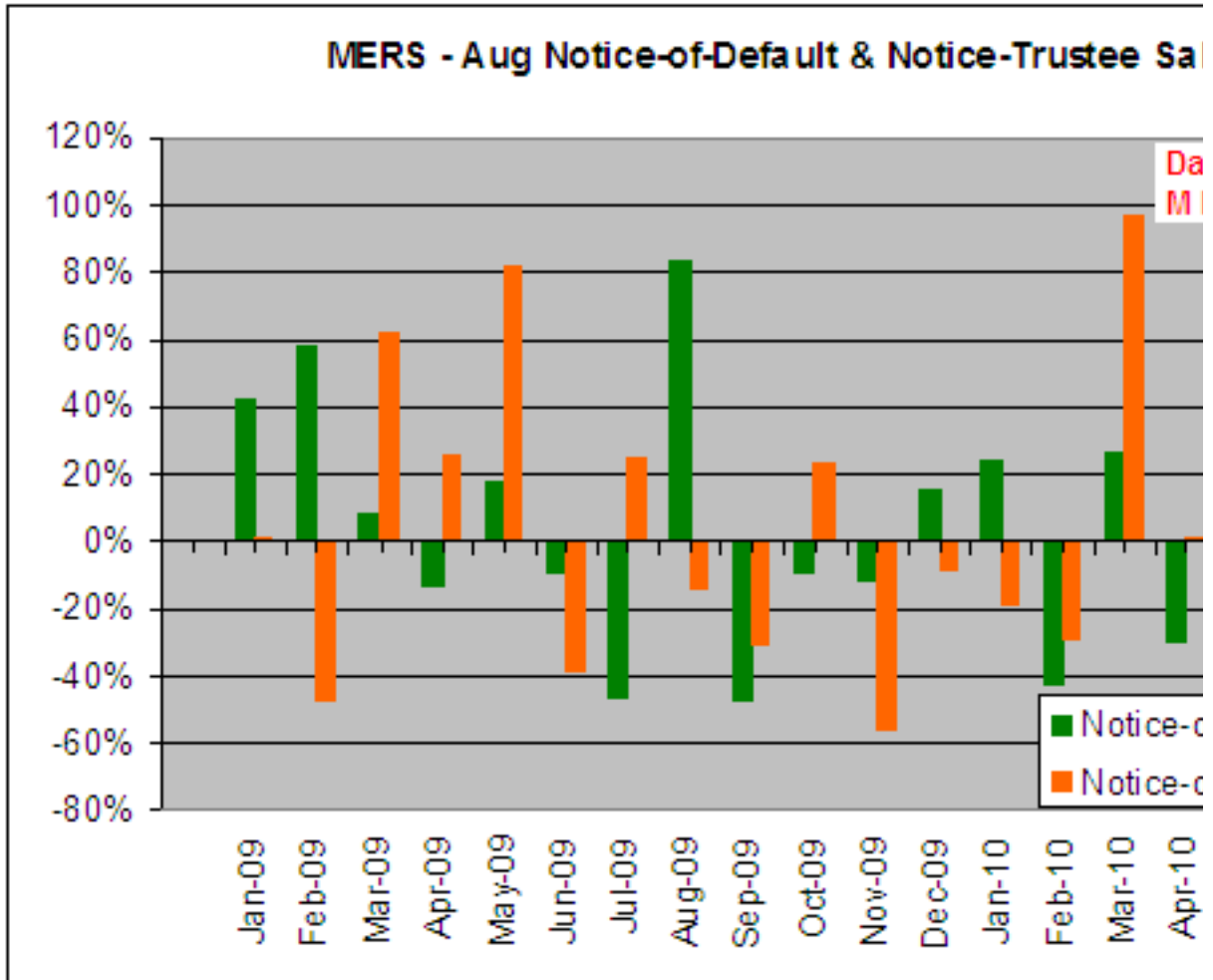
**The bottom line** is that banks are indeed more aggressive in filing **NOD** and **NTS** on loans they own vs on loans they only service for others and their **distressed loan pipeline is once again in growth mode.**



3) With MERS-related loans, NOD were also up three months straight and at a greater pace than either of the previous.

This is exactly what I would expect to see if mod redefaults were heating up, as MERS is not a bank or a servicer, and the default notice and Foreclosure velocity is up to the servicers managing their loans under strict PSA's.

The bottom line is that the banks have much more flexibility to play around with loans they own or they service for the GSE's than loans they service for MERS or securities owners likely making this particular chart a slightly better representation of underlying default and redefault fundamentals than the previous two.

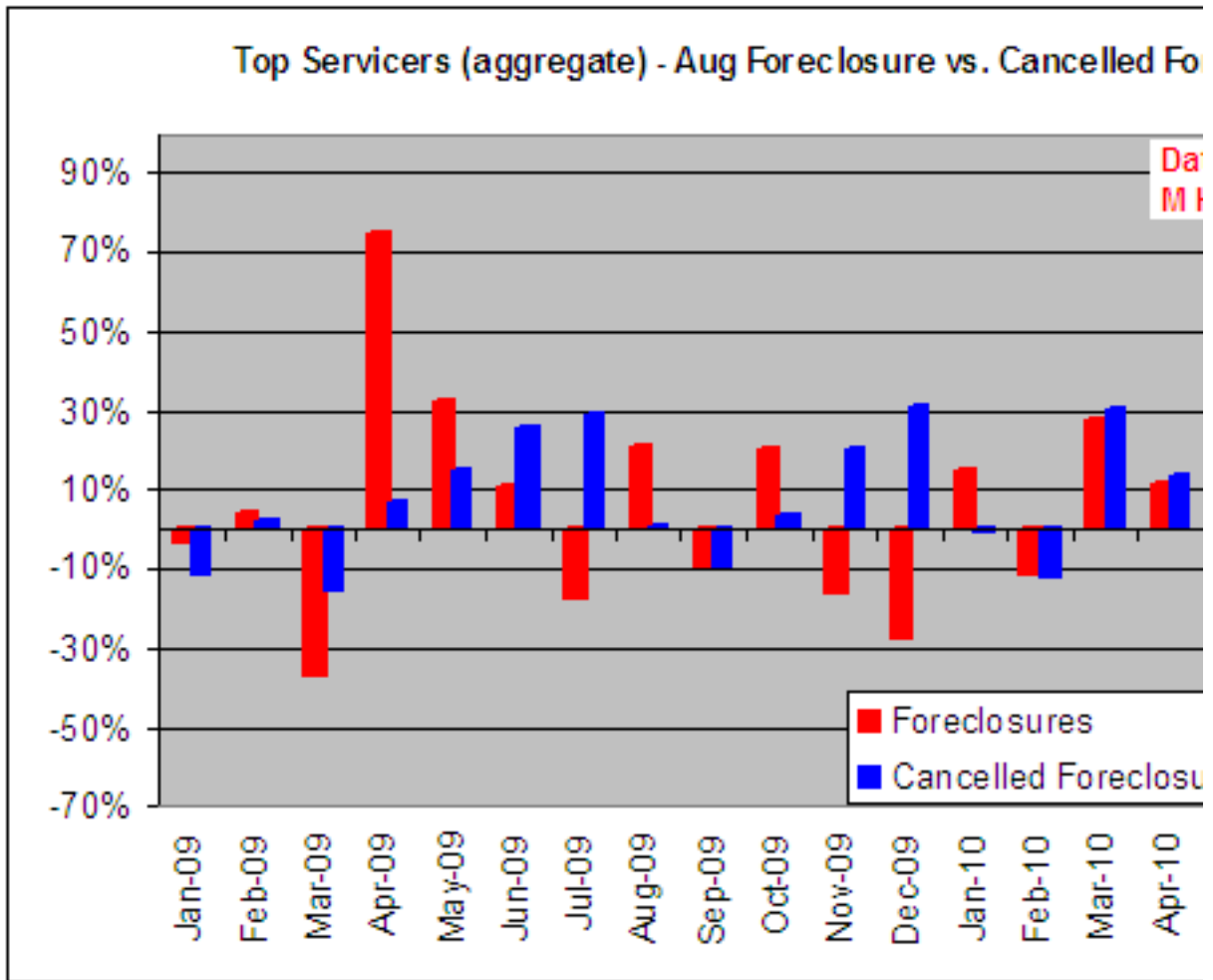


**Foreclosure & Cancelled Foreclosure Activity - by Bank, Servicer, and MERS**

4) At the nation's top servicers, **Foreclosures** have increased strongly for the past two months. This, while **Cancelled Foreclosures**, indicative of loans mods, have dropped considerably.

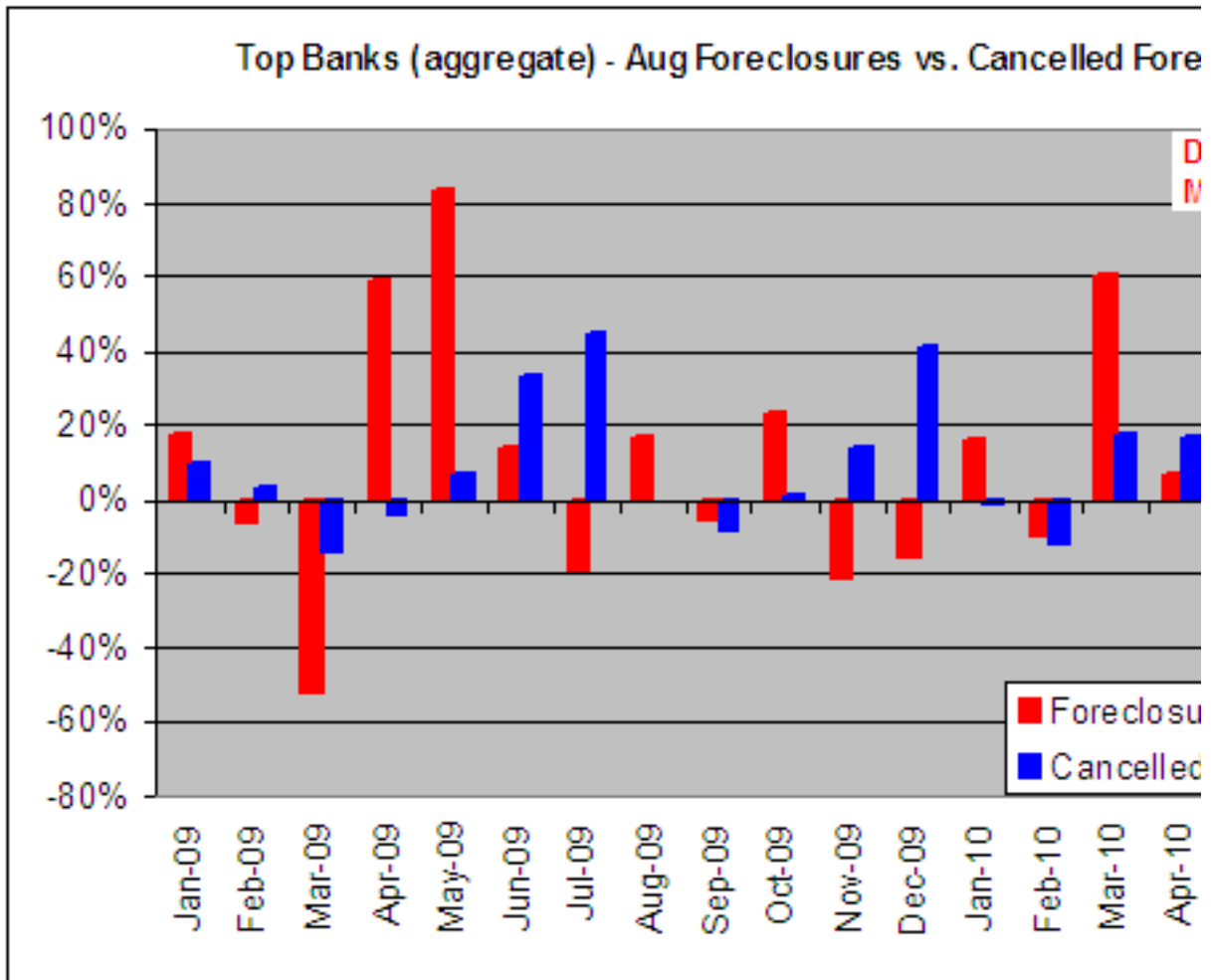
**The bottom line is that this divergence is interesting and important to note.** This is because the divergence indicates they are losing control of the late-stage default and Foreclosure pipeline (which they have managed so well through mods) and significantly increased **Foreclosures** -- a clear negative for housing and bank's balance sheets -- is unavoidable without new, near-

term gov't interference.



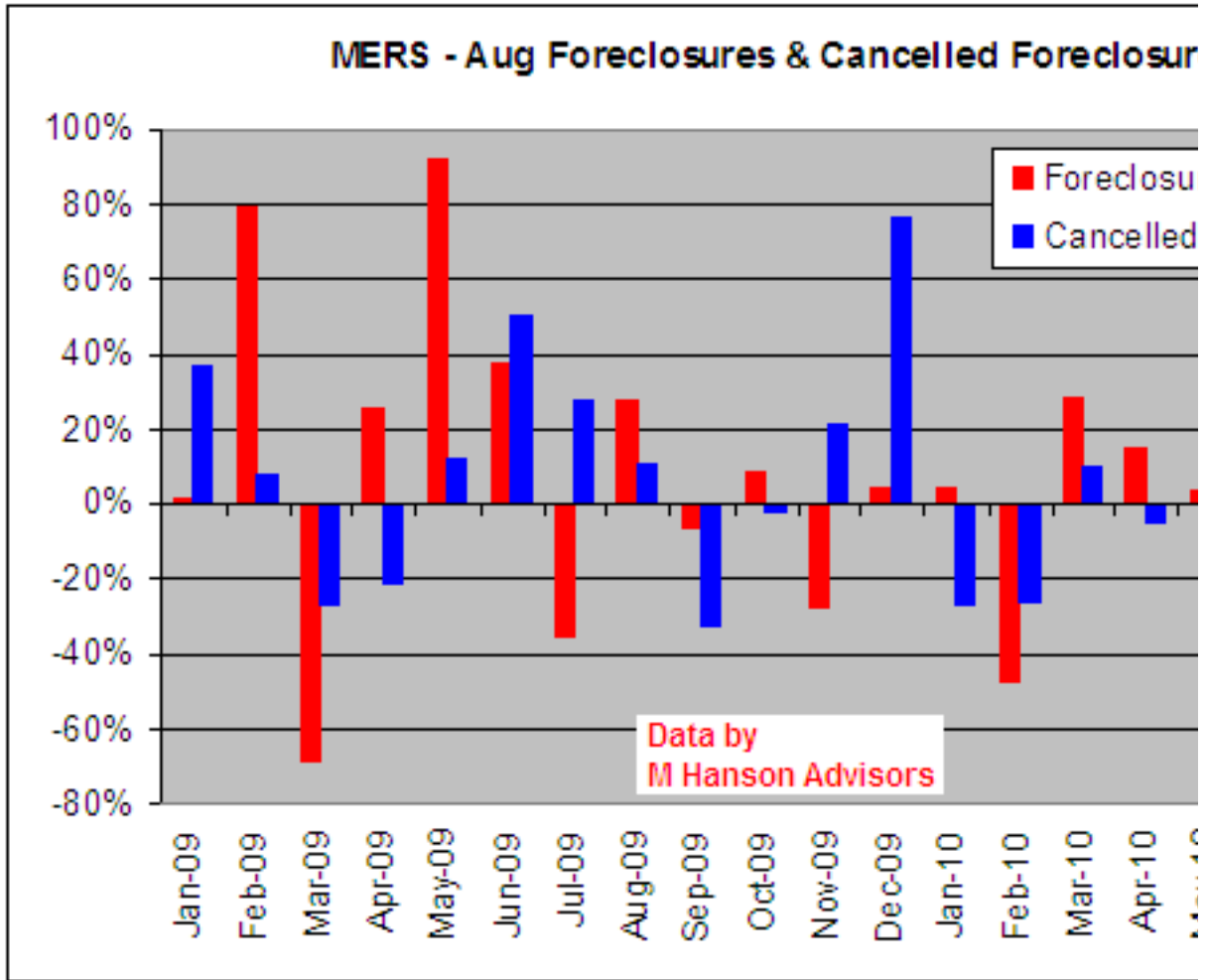
**5) At the nation's top bank loan originators/holders** -- on loans they originated and still service indicating potential ownership or liability -- **Foreclosures** have also been up two months in a row but more sharply in August than on loans they only service for others. Hey, if you're a bank and know a wave of Foreclosures is coming from your servicing clients, you may as well front run them.

**Cancelled Foreclosures** show the exact same divergence as in the previous chart indicating **the days of extreme can-kicking are coming to an end** until the Gov't interferes once again.



6) With MERS loans, Foreclosures were also up in August after a down month in July unlike the previous two charts. Again, this indicates the banks got a nice jump on the securities holder's loans.

Unlike the servicers and banks, MERS-related Cancelled Foreclosures were up this month, after plunging in July, which I don't think this means much given the two month average brings them in-line with the previous two charts.



**All Data by M Hanson Advisors**

For further explanation as to what these data may indicate or to look at more live data on-line via our web presentation portal, please do not hesitate to call.

**Best Regards,**

**Mark Hanson**

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