DECEMBER 2015 **REPORT**

MORTGAGE MONITOR

BLACK KNIGHT
FINANCIAL SERVICES
DATA & ANALYTICS

CONTENTS

DECEMBER 2015 OVERVIEW

Each month, the Black Knight Mortgage Monitor looks at a variety of issues related to the mortgage and financial services industry.

This month, as always, the Mortgage Monitor begins with a look at some of the high-level mortgage performance statistics reported in the company's most recent First Look report, providing updates on delinquency, foreclosure and prepayment trends.

From there, the report looks back at mortgage performance statistics for 2015 in review, providing a recap of of the year's foreclosure inventory improvement. In addition, we examine the remaining foreclosure pipelines at both national and state levels. Next, we revisit cash-out refinance originations, using the most recent available data to provide an update on Q3 2015 activity, while also providing a historical comparison of today's cash-out originations.

Finally, the report analyzes data from the Black Knight Home Price Index alongside Census Bureau income data and FHLMC 30-year conforming mortgage interest rates to take a look at home affordability. Specifically, using national median home price and household income levels to calculate mortgage payment-to-income ratios, we benchmark home affordability today vs. pre-crisis levels. We also examine the impact of rising rates on home affordability at the national and state levels.

In producing the Mortgage Monitor, the Data & Analytics division of Black Knight Financial Services aggregates, analyzes and reports upon the most recently available mortgage performance data from the company's McDash loan-level database. For more information on McDash or Black Knight Data & Analytics in general, please call 844-474-2537 or email AskBlackKnight@bkfs.com.

DECEMBER FIRST LOOK FINDINGS

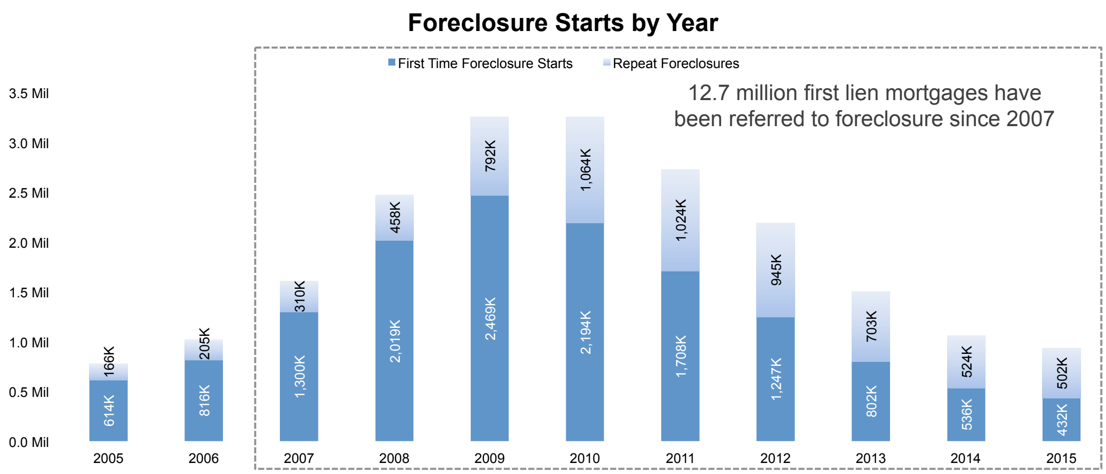
Here we have an overview of findings from Black Knight's 'First Look' at December mortgage performance data. This information has been compiled from Black Knight's McDash loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.

	Dec-15	Month-over-month change	Year-over-year change	12 Month Trend
Total U.S. loan delinquency rate (loans 30 or more days past due, but not in foreclosure):	4.78%	-2.99%	-14.98%	
Total U.S. foreclosure pre-sale inventory rate:	1.37%	-1.00%	-21.85%	
Total U.S. foreclosure starts:	78,100	17.27%	-14.64%	
Monthly Prepayment Rate (SMM):	1.14%	23.85%	1.29%	
Foreclosure Sales as % of 90+:	1.87%	5.87%	27.82%	
Number of properties that are 30 or more days past due, but not in foreclosure:	2,408,000	-83,000	-425,000	
Number of properties that are 90 or more days past due, but not in foreclosure:	808,000	-19,000	-280,000	
Number of properties in foreclosure pre-sale inventory:	689,000	-9,000	-192,000	
Number of properties that are 30 or more days past due or in foreclosure:	3,097,000	-92,000	-618,000	

- » Delinquencies fell by approximately 3 percent for the month, one of only 3 November to December drops in the last 10 years; the 15 percent year-over-year decline in the delinquency rate marks the best calendar year performance since 2010
- » Foreclosure starts jumped 17 percent from November's post-crisis low, but the rise was not unexpected – month-over-month increases have been observed in 9 of the last 10 years; still 15 percent below a year ago
- » Prepayments were up 24 percent from last month; it's also not uncommon to see a rise in prepay activity from November to December despite rates remaining relatively unchanged (up 2BPS) during that time span
- » Non-current inventory fell by nearly 620K in 2015, a 17 percent reduction, and the best calendar year performance since 2012

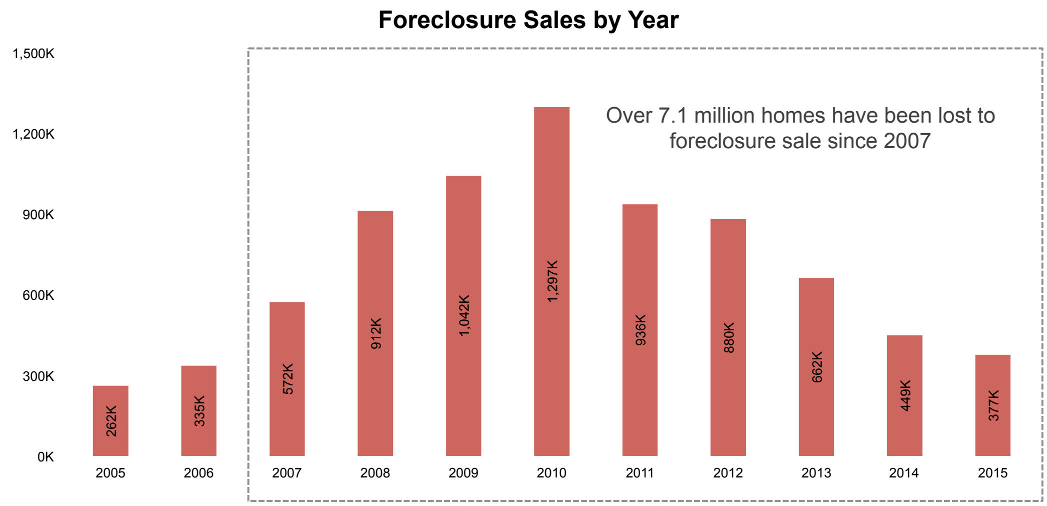
2015 FORECLOSURE ACTIVITY IN REVIEW

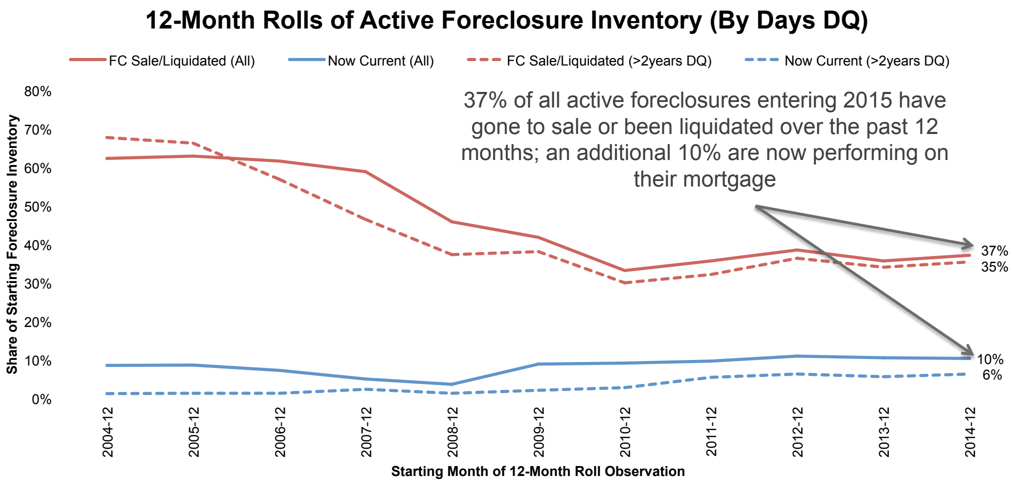
Here, we take a look back at 2015 in review, providing a recap of of the year's foreclosure inventory improvement, while also looking at remaining foreclosure pipelines at both the national and state level. This information has been compiled from Black Knight's McDash loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.



- Foreclosure starts were down 12 percent in 2015; first time starts fell 19 percent, while repeat foreclosures – loans that had been referred to foreclosure at least once in the past – were only down 4 percent
- Driven lower by pristine performance of recent vintages and reduced inflow of severely delinquent loans from crisis era vintages, first time foreclosure starts fell to their lowest level in over a decade
- In fact, there were 30 percent fewer first time starts in 2015 than in 2005 during the run up to the housing crisis
- 2015 saw over 80 percent fewer first time foreclosure starts (2 million less) than at the peak of the crisis in 2009
- 54 percent of 2015 foreclosure starts were repeats

2015 FORECLOSURE ACTIVITY IN REVIEW

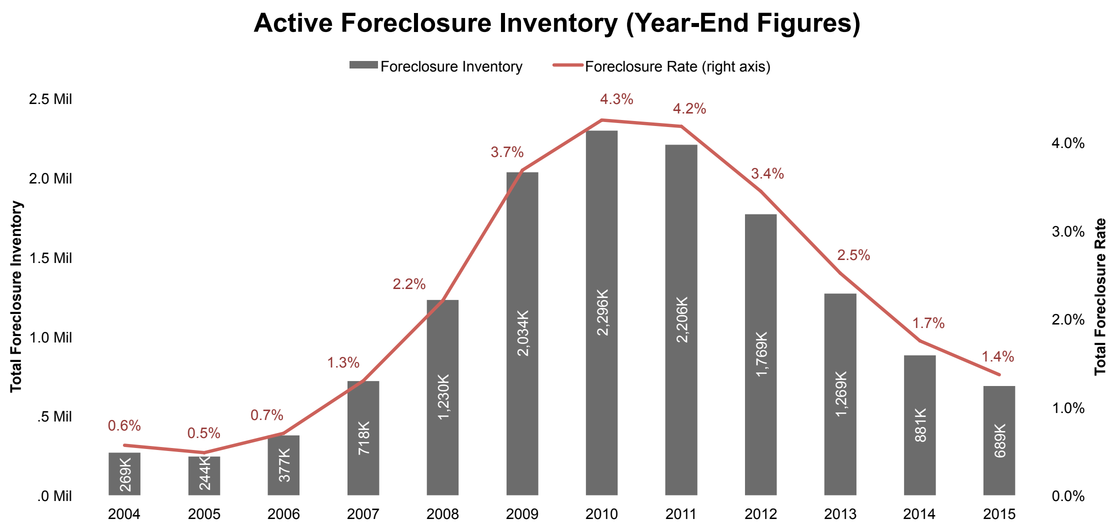




- Foreclosure sale (completion) activity continues to decline, with 72K fewer sales in 2015, a 16 percent improvement over 2014
- The roughly 377K foreclosure sales in 2015 mark a 70 percent decline in activity from the peak in 2010; we continue to see higher than “normal” foreclosure sale activity due to still elevated 90+ day delinquent and foreclosure inventories
- Over 7.1 million homes have been lost to foreclosure sale since 2007; 1.2 million of these were in California alone
- Florida (872K) and Michigan (407K) follow California in number of homes lost to foreclosure

- Looking at the 880k loans that started the year in active foreclosure, we see 484k were at least 2 years delinquent at the time
- 47 percent of loans entering 2015 in active foreclosure are either performing again or have been liquidated; this is about 1.5% higher than last year, but slightly behind the improvement seen in 2013
- 41 percent of loans that entered 2015 in foreclosure and were at least 2 years delinquent are either performing again or have been liquidated; 6 percent were brought back to current status

2015 FORECLOSURE ACTIVITY IN REVIEW



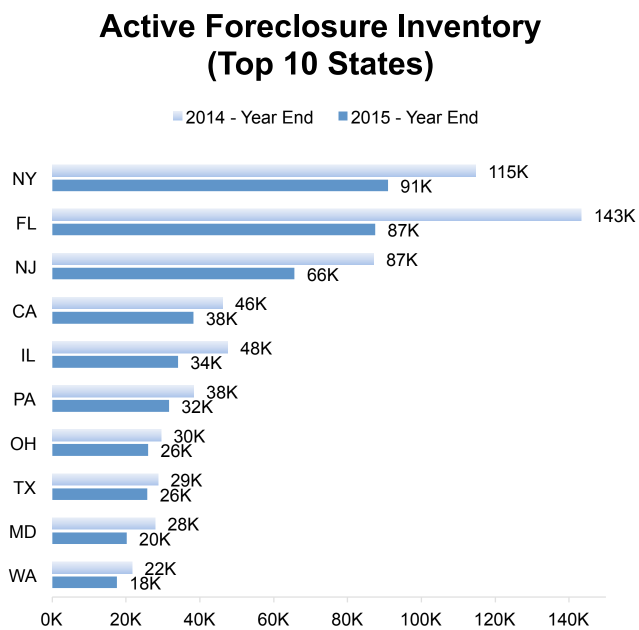
» Active foreclosure inventory ended the year below 700,000 for the first time since 2006, less than a third of what it was at the height of the crisis

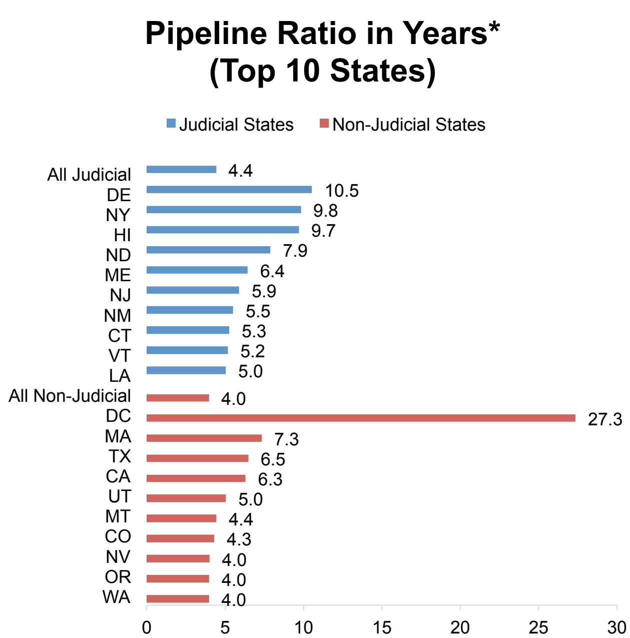
» Foreclosure inventory peaked at the end of 2010 at roughly 2.3 million active foreclosures

» As of the end of December, there were 689K loans remaining in active foreclosure, or 1.4 percent of all first lien mortgages

» Foreclosure inventory dropped by 193K loans – 22 percent – over the past 12 months; remaining volume still stands at nearly 2.5 times the "normal" level

2015 FORECLOSURE ACTIVITY IN REVIEW



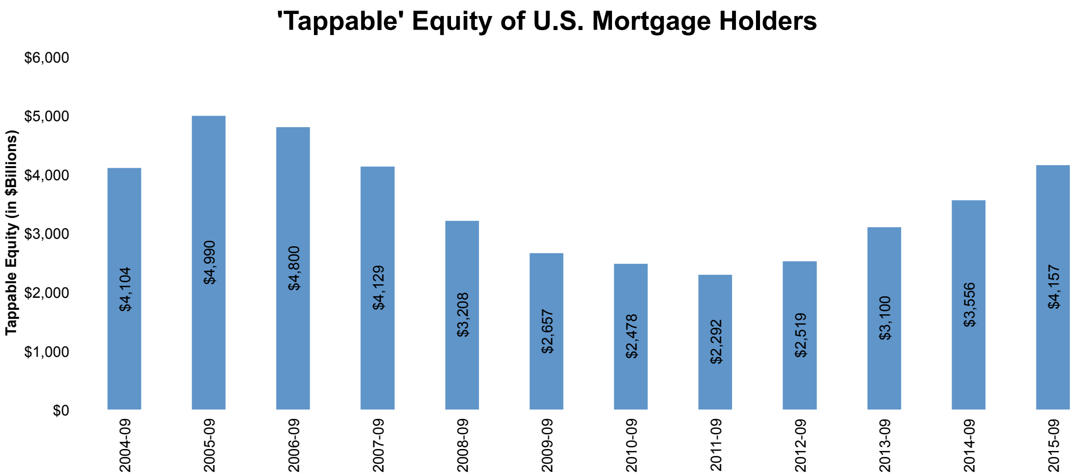


****Pipeline Ratio:** Remaining 90+ day delinquent and foreclosure inventory divided by the 6-month average foreclosure sale volume*

- Florida's 39 percent reduction in foreclosure inventory led all states in 2015
- New York now leads the nation in remaining foreclosure inventory (~91k), having reduced its inventory by 21 percent in 2015, just below the national average of 22 percent
- New York, Florida and New Jersey account for 35 percent of remaining foreclosure inventory
- Looking at pipeline ratios – the number of years necessary to clear through the backlog of loans either seriously delinquent or in foreclosure at the current rate of foreclosure sales – we see the overall pipeline has dropped by roughly 8 months since this time last year
- While Washington D.C. stands out, it should be noted that there are less than 5,000 loans in the pipeline; limited foreclosure sale activity has resulted in an elevated pipeline ratio
- New York, Florida and New Jersey are again the states to watch in 2016; Florida, however, has only a 3-year pipeline based upon current foreclosure sale activity

CASH-OUT REFINANCE ORIGINATIONS

Here, we revisit cash-out refinance originations, using the most recent available data to provide an update on Q3 2015 activity, while also providing a historical comparison of today's cash-out originations. This information has been compiled from Black Knight's McDash loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.



- ***Tappable Equity:*** *Equity available on a property before reaching a current CLTV of 80%. (Aggregated nationally)*

**Equity figures have been revised from prior estimates based on the most recent data available*

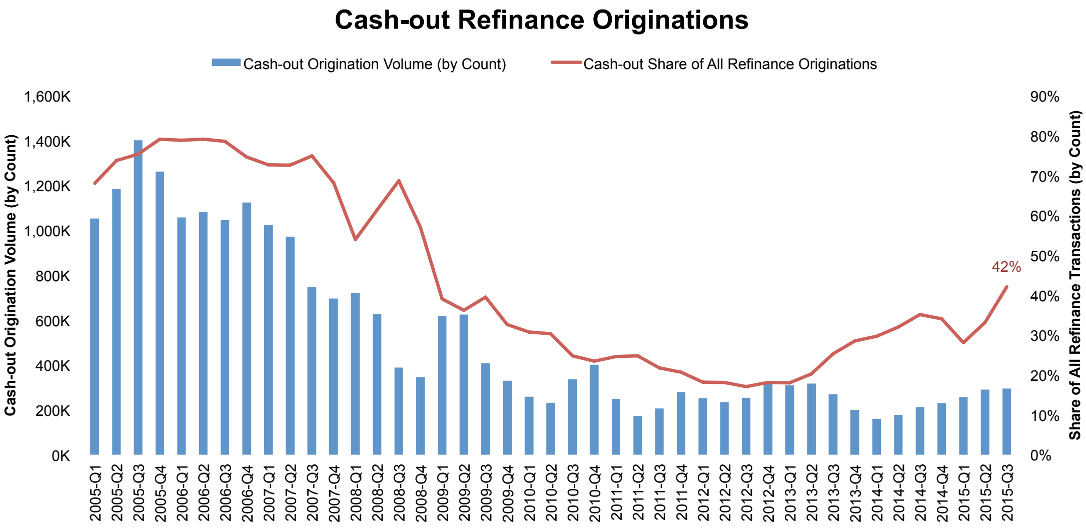
» As we reported in last month's Mortgage Monitor, there is currently $4.2 trillion in tappable equity available to U.S. mortgage holders; that's up $600 billion (a 17 percent increase) over the past 12 months

» Using an upper limit of 80 percent total combined loan-to-value (CLTV), including first and second liens, there are now approximately 37 million borrowers with an average of $112,000 in equity before hitting the 80 percent CLTV threshold

» Roughly half of all of tappable equity belongs to borrowers with current interest rates higher than 4 percent making first lien cash-out refinances an attractive option to access available equity

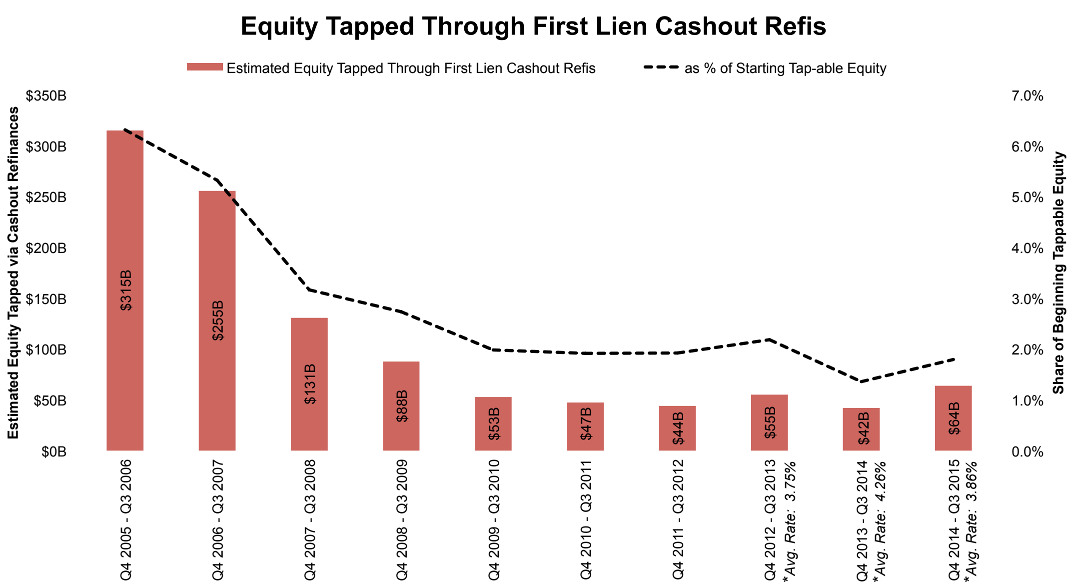
» A 1 percent rise in interest rates would mean that 80 percent of borrowers with a mortgage would have to increase their first lien rate in order to tap their available equity through a cash-out refinance

CASH-OUT REFINANCE ORIGINATIONS

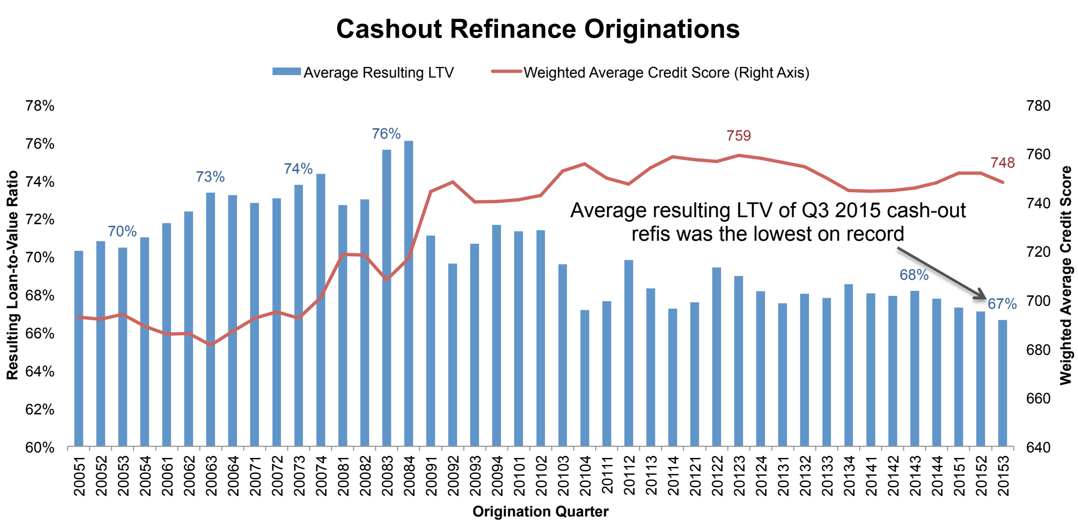


- Nearly 300,000 cash-out refinances were originated in Q3 2015 – a 39 percent increase over 2014 – and approximately 1 million were originated over the past 12 months
- This marks 6 consecutive quarters of rising cash-out refi volumes, and in Q3 2015, 42 percent of all first lien refinances involved a cash-out component, the highest share since 2008
- Likewise, the average cash-out amount – over $60,000 – is the highest it's been since 2007

CASH-OUT REFINANCE ORIGINATIONS



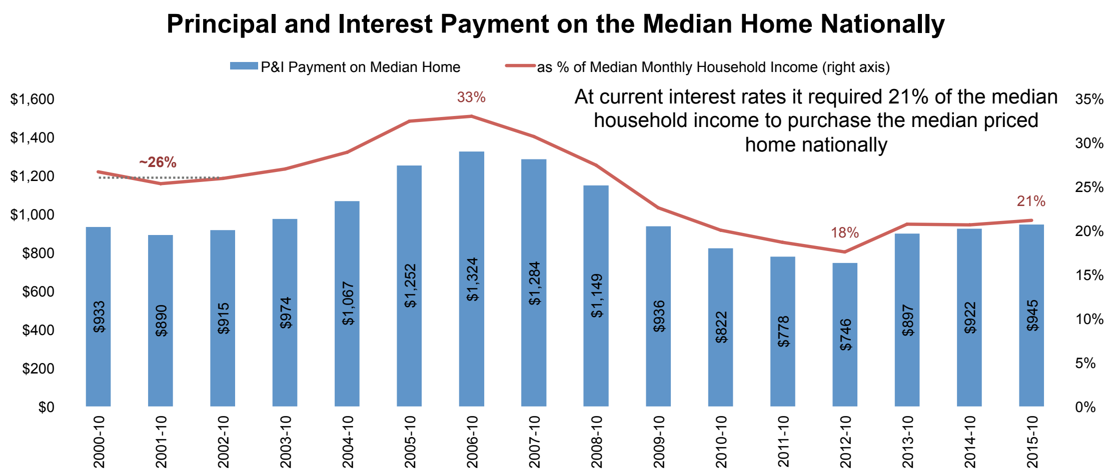
- » $64 billion in equity was tapped via cash-out refinances over the past 12 months, the highest dollar amount for any equivalent 12-month period since 2008-2009
- » This amounted to less than 2 percent of available equity, which is actually slightly below the post-crisis norm, and 80 percent less than the amount of equity extracted from the market in 2005-2006
- » The last time interest rates rose by ~50 BP, in late 2013 into early 2014, the share of equity tapped by first liens dropped to the lowest on record, below 1.5 percent



- » The resulting LTV and credit score risk of recent cash-out refinances remains low by historic standards
- » The average resulting LTV of 67 percent is the lowest level on record
- » The average credit score of 748 is approximately 30 points lower than the average score for 2nd lien HELOC originations used to tap available equity in Q3 2015
- » The lower average credit score may serve to entice some more moderate credit score borrowers into cash-out refis over HELOCs, even if it means a slight rate increase

HOME AFFORDABILITY

Here, we analyze data from the Black Knight Home Price Index alongside Census Bureau income data and FHLMC 30-year conforming mortgage interest rates to take a look at home affordability. Specifically, using national median home price and household income levels to calculate mortgage payment-to-income ratios, we benchmark home affordability today vs. pre-crisis levels. In addition, we examine the impact of rising rates on home affordability at the national and state levels. You may click on each chart to see its contents in high-resolution.

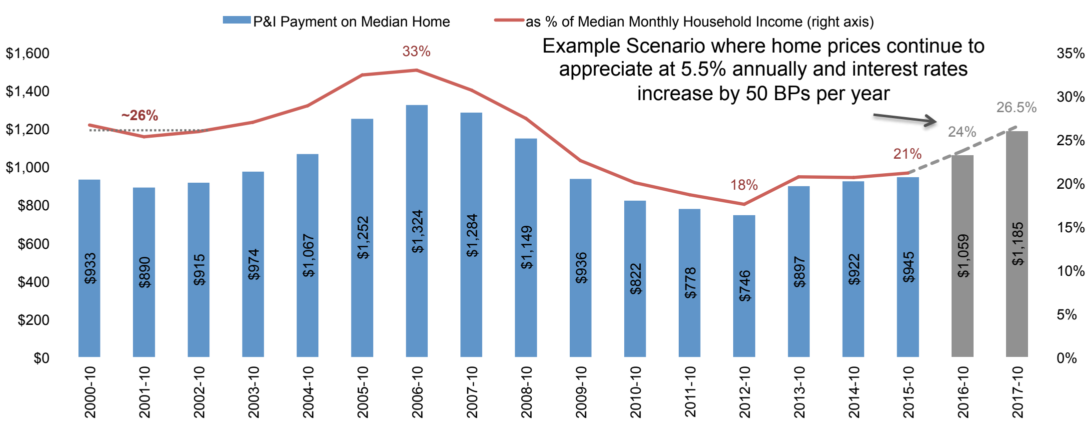


***Principal and Interest Payment on the Median Home** is based on an 80% LTV 30-year fixed rate mortgage at the FHLMC 30-year rate.*
***Payment as % of Median Monthly Household Income** utilizes median household income by year as reported by the Census Bureau*

- Despite 43 consecutive months of annual home price appreciation (HPA), affordability still remains favorable by historic standards
- Currently, it takes 21 percent of the median monthly household income to purchase the median priced home nationally using a 30-year fixed rate mortgage
- This is down significantly from 33 percent at the top of the market in 2006, and is still below the average of 26 percent in the years before the housing bubble
- Overall, it requires 20 percent less of the median income to purchase the median home today than it did from 2000-2002

HOME AFFORDABILITY

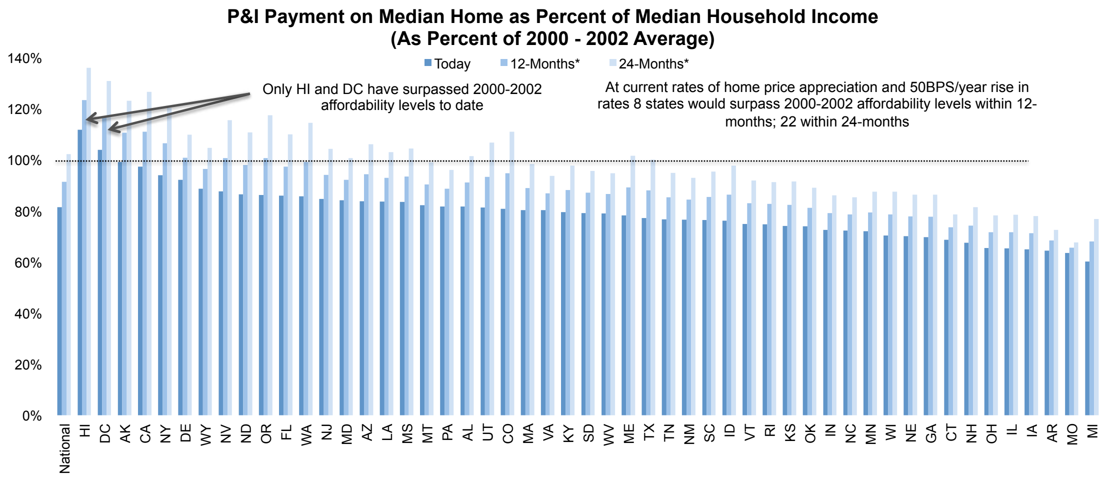
Principal and Interest Payment on the Median Home Nationally



***Principal and Interest Payment on the Median Home** is based on an 80% LTV 30-year fixed rate mortgage at the FHLMC 30-year rate.*
***Payment as % of Median Monthly Household Income** utilizes median household income by year as reported by the Census Bureau*
Median Household Income in the example scenario above was held constant over the next 24 months

- The long term impact of rising interest rates and home prices on affordability varies with geography and warrants close observation moving forward
- Using an example scenario with today's rate of home price appreciation and a 50 BPS/year increase in interest rates, we see that in two years home affordability will be pushing the upper bounds of the pre-bubble average
- In this scenario, within 12 months the average payment on the median home will have risen by $114 nationally, requiring 24 percent of median monthly income to make the mortgage payment; this is still below the 2000-2002 average
- After 24 months under this scenario, the monthly payment on the median home would be $240 more, and require 26.5 percent of the median household income
- Interest rates have a much greater impact on affordability than prices; a 1 percent rise in rates is equivalent to a 13 percent jump in home prices

HOME AFFORDABILITY



P&I Payment on the Median Home *is calculated based on an 80% LTV 30-year fixed rate mortgage at the FHLMC 30-year rate.*
Payment as % of Median Monthly Household Income *utilizes median household income by year as reported by the Census Bureau*
****Example Scenarios*** *assuming continued yearly home price appreciation at current rate (per state) as of October 2015 along with 50 BPS interest rate increase per year for the next 2 years. Income levels were held steady over the next 24 month period.*

- Although rates rise similarly across states, rising rates may have varying impacts on home affordability around the country; to gauge impact, we applied the same scenario and benchmarked each state against its own pre-bubble affordability ratio
- Under that same scenario, eight states would be less affordable than 2000-2002 levels within 12 months and 22 within 24 months
- Right now, both Hawaii and Washington D.C. are already less affordable than they were during the pre-bubble era
- On the other hand, Michigan - among other states - even after 24 months under this scenario, would still be much more affordable at the end of 2017 than it was in the early 2000s

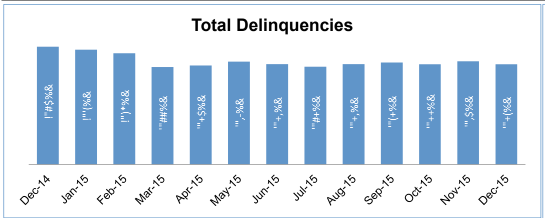
APPENDIX

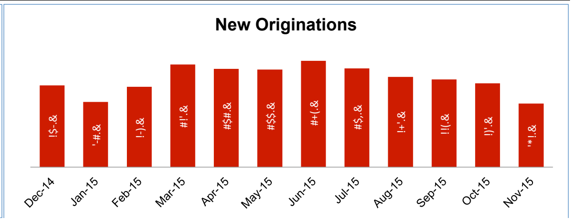
» December 2015 Data Summary

Summary Statistics

	Dec-15	Monthly Change	YTD Change	Yearly Change
Delinquencies	4.78%	-2.99%	-12.87%	-14.98%
Foreclosure	1.37%	-1.00%	-22.17%	-21.85%
Foreclosure Starts	78,100	17.27%	-16.29%	-14.64%
Seriously Delinquent (90+) or in Foreclosure	2.97%	-1.57%	-23.05%	-24.02%
New Originations (data as of Nov-15)	405K	-24.3%	-22.3%	-9.1%

	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15	Jun-15	May-15	Apr-15	Mar-15	Feb-15	Jan-15	Dec-14
Delinquencies	4.78%	4.92%	4.77%	4.87%	4.79%	4.67%	4.79%	4.91%	4.72%	4.66%	5.30%	5.48%	5.62%
Foreclosure	1.37%	1.38%	1.43%	1.46%	1.48%	1.52%	1.56%	1.59%	1.63%	1.68%	1.72%	1.76%	1.75%
Foreclosure Starts	78,100	66,600	73,200	79,900	76,200	71,500	78,100	77,400	70,400	92,200	77,200	93,300	91,500
Seriously Delinquent (90+) or in Foreclosure	2.97%	3.02%	3.05%	3.08%	3.12%	3.18%	3.25%	3.33%	3.43%	3.51%	3.74%	3.86%	3.91%
New Originations		405K	534K	558K	574K	629K	678K	622K	626K	654K	513K	416K	521K





» Loan counts and average days delinquent

Month	TOTAL ACTIVE COUNT	30 DAYS	60 DAYS	90+ DAYS	FC	Total Non-Current	FC Starts	Average Days Delinquent for 90+	Average Days Delinquent for FC	Ratio of 90+ to FC
1/31/05	47,706,128	1,197,062	339,920	458,719	276,745	2,272,446	50,922	242	324	165.8%
1/31/06	50,900,620	1,242,434	387,907	542,378	258,613	2,431,332	76,477	207	308	209.7%
1/31/07	53,900,458	1,425,030	468,441	551,439	393,973	2,838,883	117,419	203	267	140.0%
1/31/08	55,478,782	1,743,420	676,266	950,639	813,560	4,183,885	195,033	190	256	116.8%
1/31/09	55,788,441	2,001,314	932,436	1,878,981	1,321,029	6,133,760	250,621	193	323	142.2%
1/31/10	55,098,009	1,945,589	903,778	2,972,983	2,068,572	7,890,922	292,308	253	418	143.7%
1/31/11	53,861,778	1,750,601	746,634	2,078,130	2,245,250	6,820,615	277,374	333	527	92.6%
1/31/12	52,687,781	1,592,463	652,524	1,796,698	2,205,818	6,247,503	223,394	395	666	81.5%
1/31/13	51,229,692	1,464,583	587,661	1,551,415	1,742,689	5,346,348	156,654	460	803	89.0%
1/31/14	50,380,779	1,341,074	529,524	1,278,955	1,213,046	4,362,599	97,467	486	935	105.4%
1/31/15	50,412,744	1,238,453	465,849	1,060,002	884,901	3,649,204	93,280	509	1,031	119.8%
2/28/15	50,413,639	1,225,175	427,079	1,018,527	866,417	3,537,198	77,208	521	1,030	117.6%
3/31/15	50,409,192	1,040,372	382,697	925,888	845,643	3,194,600	92,164	534	1,029	109.5%
4/30/15	50,423,510	1,090,259	381,705	909,381	820,030	3,201,375	70,415	536	1,040	110.9%
5/31/15	50,438,008	1,199,089	399,359	879,103	802,557	3,280,108	77,355	526	1,046	109.5%
6/30/15	50,459,394	1,156,087	406,533	852,781	788,595	3,203,996	78,149	526	1,043	108.1%
7/31/15	50,442,127	1,111,981	401,786	841,887	764,415	3,120,070	71,467	531	1,056	110.1%
8/31/15	50,426,730	1,168,234	419,810	825,253	747,930	3,161,228	76,180	519	1,061	110.3%
9/30/15	50,478,041	1,210,590	429,422	816,725	737,254	3,193,993	79,899	510	1,056	110.8%
10/31/15	50,585,778	1,173,455	421,449	819,677	721,435	3,136,017	73,218	514	1,057	113.6%
11/30/15	50,576,509	1,233,230	430,248	827,338	697,944	3,188,761	66,629	502	1,061	118.5%
12/31/15	50,406,434	1,175,869	424,724	807,656	688,672	3,096,921	78,088	491	1,060	117.3%

APPENDIX

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.8%**	**1.4%**	**6.1%**	**-16.7%**
MS	10.9%	1.4%	12.3%	-13.0%
LA	8.4%	1.7%	10.0%	-8.8%
NJ	5.3%	4.3%	9.6%	-21.1%
NY	5.1%	3.7%	8.8%	-18.5%
AL	7.8%	0.9%	8.7%	-12.2%
ME	6.0%	2.7%	8.7%	-14.5%
RI	6.4%	2.2%	8.5%	-18.6%
WV	7.4%	1.0%	8.5%	-10.9%
IN	6.3%	1.6%	7.9%	-13.5%
DE	5.6%	2.3%	7.8%	-10.8%
PA	6.0%	1.8%	7.8%	-15.4%
AR	6.6%	1.2%	7.8%	-14.9%
FL	5.1%	2.6%	7.7%	-26.7%
OK	5.7%	1.9%	7.6%	-5.9%
CT	5.3%	2.1%	7.4%	-18.0%
SC	6.0%	1.3%	7.3%	-14.1%
TN	0.0%	0.6%	7.3%	-16.1%

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.8%**	**1.4%**	**6.1%**	**-16.7%**
MD	5.6%	1.6%	7.2%	-17.3%
HI	3.6%	3.5%	7.2%	-15.0%
GA	6.4%	0.8%	7.2%	-14.0%
OH	5.5%	1.5%	7.0%	-15.3%
NM	4.6%	2.4%	7.0%	-10.3%
TX	5.9%	0.7%	6.6%	-8.9%
MA	4.9%	1.6%	6.5%	-19.1%
NC	5.4%	0.8%	6.2%	-15.6%
KY	4.8%	1.4%	6.2%	-15.0%
IL	4.6%	1.6%	6.2%	-19.6%
NV	4.2%	1.9%	6.1%	-20.8%
KS	4.8%	1.1%	5.9%	-12.1%
MO	5.1%	0.7%	5.8%	-14.9%
VT	3.9%	1.9%	5.7%	-18.3%
DC	3.3%	2.2%	5.5%	-16.9%
WI	4.2%	1.2%	5.4%	-16.3%
MI	4.7%	0.5%	5.2%	-18.0%

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.8%**	**1.4%**	**6.1%**	**-16.7%**
NH	4.4%	0.8%	5.1%	-21.4%
IA	3.8%	1.1%	5.0%	-14.2%
VA	4.2%	0.5%	4.7%	-14.7%
UT	3.7%	0.6%	4.3%	-14.6%
NE	3.8%	0.5%	4.3%	-16.4%
WY	3.4%	0.8%	4.2%	-7.3%
WA	2.9%	1.3%	4.2%	-20.3%
OR	2.6%	1.4%	4.0%	-22.6%
AZ	3.5%	0.5%	4.0%	-12.1%
CA	3.3%	0.6%	3.8%	-12.8%
ID	2.8%	0.9%	3.7%	-18.3%
MT	2.6%	0.7%	3.4%	-12.2%
SD	2.7%	0.7%	3.3%	-6.8%
MN	2.7%	0.4%	3.2%	-18.0%
CO	2.6%	0.5%	3.0%	-17.5%
AK	2.5%	0.4%	2.9%	-14.5%
ND	1.7%	0.5%	2.2%	-7.9%

** - Indicates Judicial State*

» State-by-state rankings by non-current loan population

DISCLOSURES

Please refer to the links below for specific disclosures relating to Product Definitions, Metrics Definitions and Extrapolation Methodology.

>> PRODUCT DEFINITIONS

>> METRICS DEFINITIONS

>> EXTRAPOLATION METHODOLOGY