FEBRUARY 2016 REPORT

MORTGAGE MONITOR

BLACK KNIGHT®
FINANCIAL SERVICES
DATA & ANALYTICS

CONTENTS

FEBRUARY 2016 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. In particular, we take a deeper dive into February's historic decline in the national delinquency rate in the wake of January's significant, albeit primarily calendar-driven, spike.

Next, given the rising levels of tappable equity nationwide that we've reported on in recent months, we thought it worthwhile to revisit the other side of the equation as well. Leveraging data from Black Knight's Home Price Index and SiteX property records database, we reexamine the current state of negative equity among U.S. homeowners with mortgages. We look at the situation from a variety of perspectives, with a particular emphasis on underwater rates of lower priced homes across the country.

From there, we take an in-depth look at recent refinance originations, providing insight into the actions of "serial refinancers," term reductions and cash-out refinance activity. Finally, we examine the current state of home retention actions (loan modifications and repayment plans) and how they relate to the remaining inventory of loans either seriously delinquent or in active foreclosure.

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.

FEBRUARY FIRST LOOK FINDINGS

Here we have an overview of findings from HYPERLINK Black Knight's 'First Look' at February mortgage performance data, with a particular focus on February's historic decline in the national delinquency rate. 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.

	Feb-16	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):	4.45%	↓ -12.57%	↓ -15.93%	
Total U.S. foreclosure pre-sale inventory rate:	1.30%	↓ -0.64%	↓ -24.59%	
Total U.S. foreclosure starts:	84,300	↑ 17.25%	↑ 9.20%	
Monthly Prepayment Rate (SMM):	0.89%	↑ 10.23%	↓ -22.12%	
Foreclosure Sales as % of 90+:	1.86%	↓ -13.99%	↑ 14.67%	
Number of properties that are 30 or more days past due, but not in foreclosure:	2,252,000	↓ -323,000	↓ -419,000	
Number of properties that are 90 or more days past due, but not in foreclosure:	772,000	↓ -59,000	↓ -247,000	
Number of properties in foreclosure pre-sale inventory:	655,000	↓ -4,000	↓ -211,000	
Number of properties that are 30 or more days past due or in foreclosure:	2,907,000	↓ -327,000	↓ -630,000	

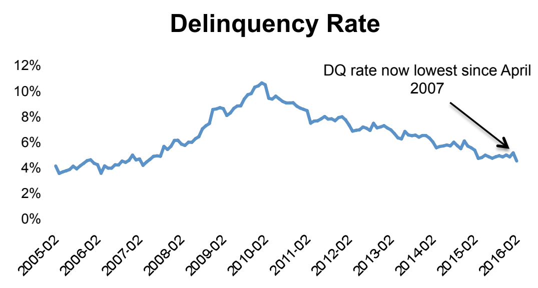
» February saw a historic decline in delinquencies, with the 12.57 percent drop fully reversing January's spike

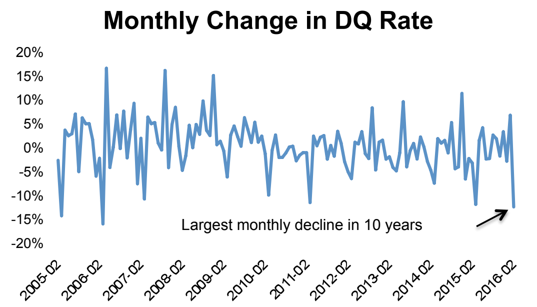
» Foreclosure starts were up 17 percent month-over-month, driven in part by repeat foreclosures in New York, New Jersey and Massachusetts; first time starts were actually down 10 percent from January

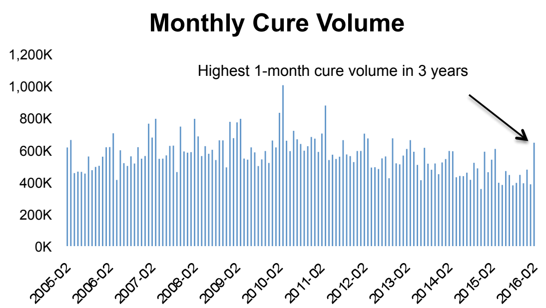
» The prepayment rate (historically a good indicator of refinance activity) was up 10 percent from January's 24-month low, but was still well below levels seen throughout most of 2015

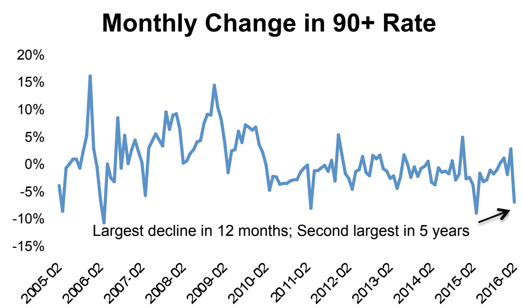
» Total non-current inventory fell by nearly 330,000 in February, dropping below 3 million for the first time in over 8 years

FEBRUARY FIRST LOOK FINDINGS





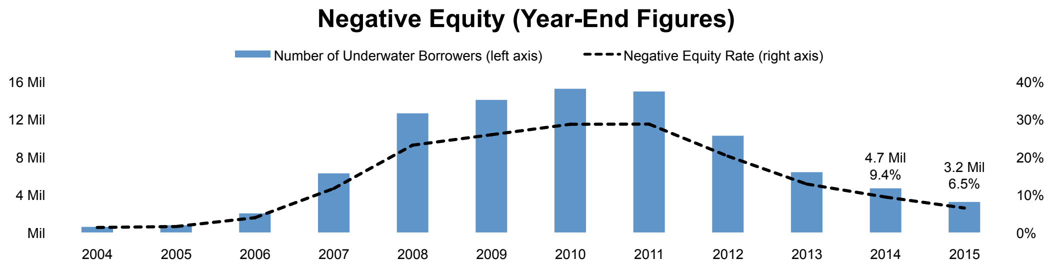


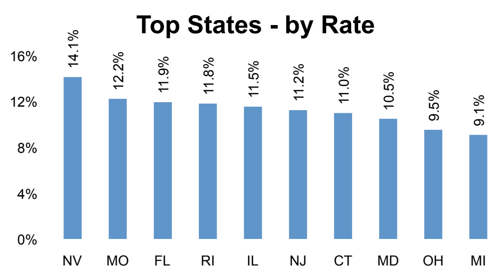


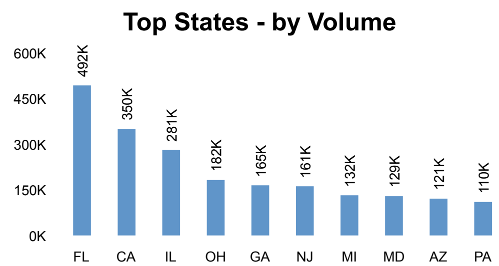
- » The national delinquency rate is now 4.45 percent, the lowest it's been since April 2007
- » February's nearly 13 percent decline in mortgage delinquencies was largest one-month drop in 10 years; FHA loans led the way, seeing a 17 percent decline
- » Loans curing from a more delinquent status were up 67 percent from January, marking the highest one-month volume of cures in 3 years at 645,000
- » 10 percent of those cures (approximately 65,000) came from loans 90 or more days past due, marking the largest volume in nearly a year
- » With a 59,000 drop in inventory, the 90+ delinquency rate fell by 7 percent month-over-month and is now below 750,000 for the first time since 2007
- » It's important to note that months following Sunday month-ends usually see a partial, but not complete, recovery of associated delinquency spikes; February's recovery went far beyond that trend

NEGATIVE EQUITY UPDATE

Given the rising levels of tappable equity nationwide that we've reported on in recent months, we thought it worthwhile to revisit the other side of the equation as well. Here, leveraging data from Black Knight's Home Price Index and SiteX property records database as well as our McDash loan-level mortgage performance dataset, we reexamine the current state of negative equity among U.S. homeowners with mortgages. You may click on each chart to see its contents in high-resolution.

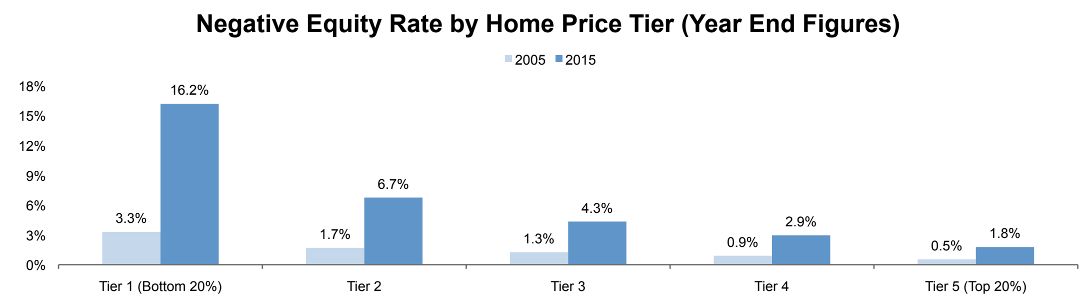


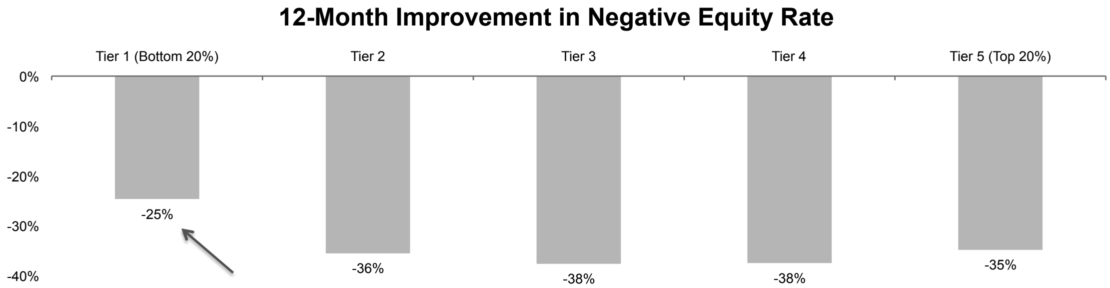




- » The inventory of loans in negative equity positions dropped by 31 percent (1.5 million) in 2015
- » At a total of 3.2 million, or 6.5 percent of all homeowners with a mortgage, this represents significant improvement from the peak in 2010, but is still well above "normal" levels
- » In Nevada, where home prices are still 34 percent below their peak, over 14 percent of borrowers are underwater on their mortgages, the largest share in the nation
- » By volume, Florida leads the country with just under 500,000 underwater borrowers
- » Of the states shown here, California and Arizona saw the largest declines in negative equity rates at 38 and 37 percent respectively
- » Missouri, where home prices are down 3 percent year-over-year, was the only state to see its underwater population actually rise in 2015, with the negative equity rate there climbing from 9 to 12 percent

NEGATIVE EQUITY UPDATE



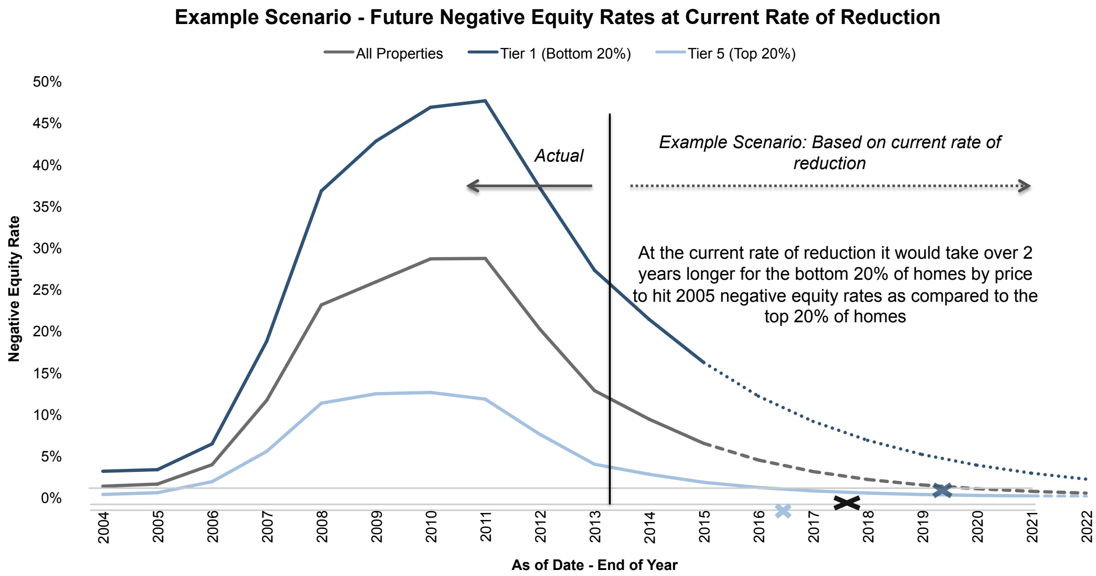


Tier 1 negative equity recovery has trailed all other price tiers in each year since home prices began to rise in 2012

**Price Tiers were derived at the CBSA level using the current property value for each mortgage. Figures were then aggregated nationally.*

- Here we look at negative equity rates broken out within each individual market into five equal home price segments– each representing a 20 percent tier of home values – these price tiers are then aggregated up to the national level
- While there has always been a disparity between the top and bottom 20 percent of home prices with regard to negative equity rates, this has been exaggerated even further by the more dramatic rise and fall of low end home prices during the bubble and bust years
- Over half of the nation’s underwater properties are in the lowest 20 percent of prices, the highest share on record
- While the national negative equity rate is now 6.5 percent, for homes in the bottom price tier, it’s 16.2 percent
- Though there has been significant improvement — the negative equity rate among this bottom tier has fallen by 25 percent over the last 12 months — recovery has lagged behind that of all other price tiers in each year since home prices began to rise in early 2012

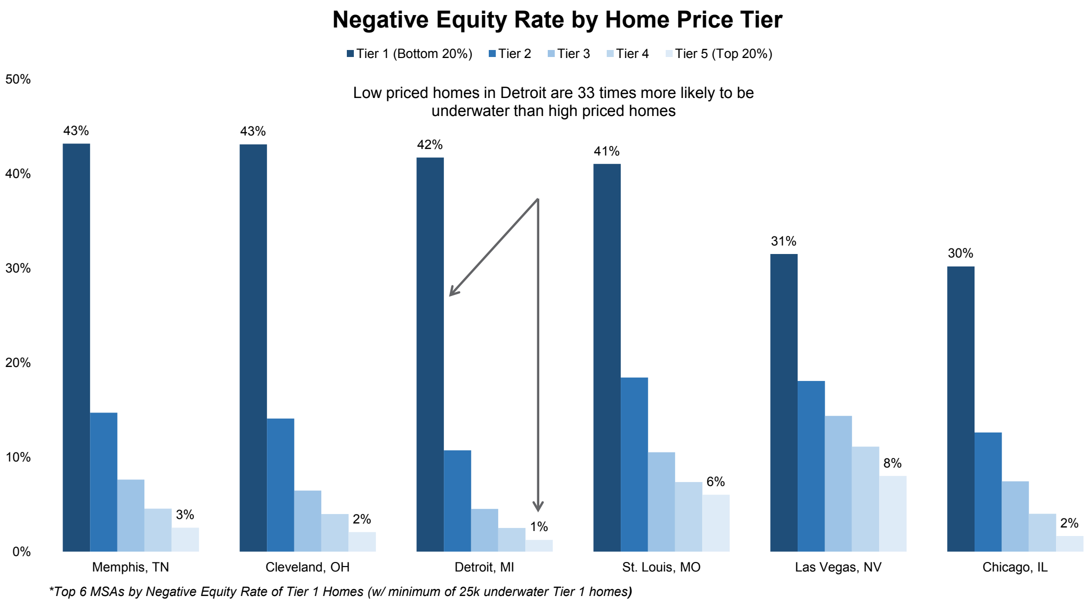
NEGATIVE EQUITY UPDATE



*Price Tiers were derived at the CBSA level using the current property value for each mortgage. Figures were then aggregated nationally.

- Here we look at an example scenario based upon 2015 calendar year reduction in negative equity rates for each price tier, projected out into the future
- The 2015 levels of decline used for the example are relatively consistent with what we've seen since the housing recovery began in 2012; Overall: -31 percent; Tier 1: -25 percent; Tier 5: -35 percent
- At the end of 2011, over 45 percent of all properties in the bottom 20 percent of home prices were underwater
- At the current rate of improvement, it would take approximately four more years for the overall negative equity rate to reach 2005 levels, and nearly two additional years for those homes in the bottom 20 percent of prices

NEGATIVE EQUITY UPDATE

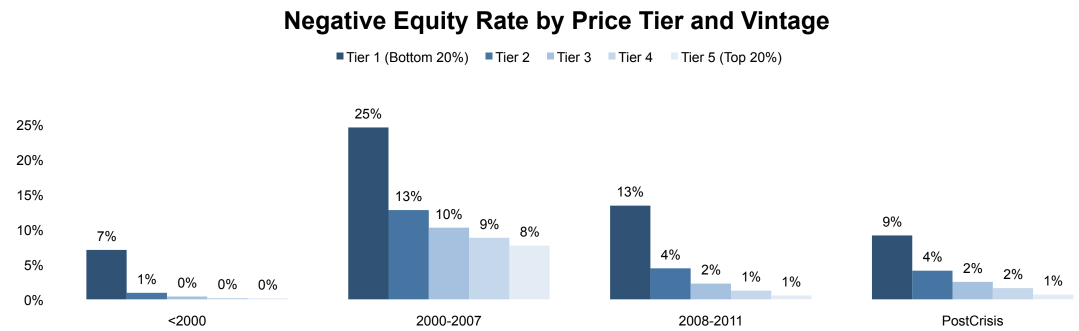


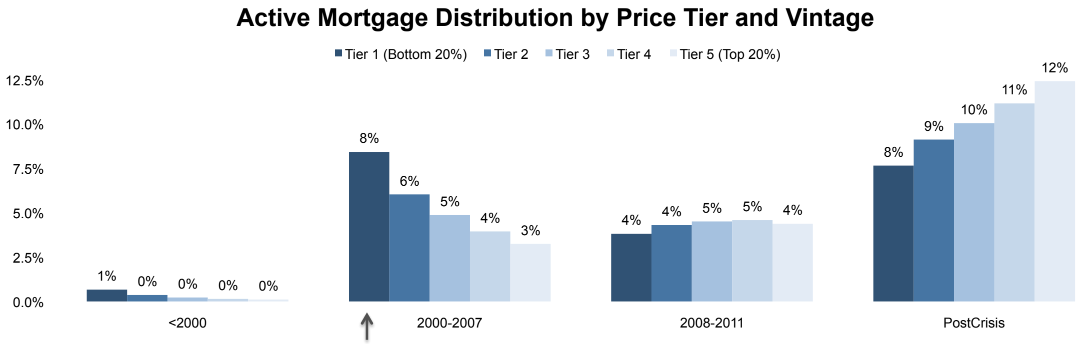
» Some metropolitan areas still have significant negative equity rates in their lower priced communities; here we see the top 6 metropolitan areas ranked by negative equity share among the bottom 20 percent of homes

» Detroit has the most extreme variance from the high-end to the low-end, with lower priced homes 33 times more likely to be underwater than high priced homes

» The bottom 20 percent of Detroit homes are still worth 35 percent less than they were at the peak in 2006, while high-end homes are only lagging peak values by 7 percent

NEGATIVE EQUITY UPDATE





Active mortgage distribution of lower priced properties remains more heavily centered in 2000-2007 vintages due in part to higher negative equity rates making it more difficult for those borrowers to refinance or sell their homes

**Price Tiers were derived at the CBSA level using the current property value for each mortgage. Figures were then aggregated nationally.*

- Here we look at negative equity rate distribution by price tier and loan vintage as compared to active mortgage distribution by the same categories
- The data shows that lingering negative equity has impacted the make-up of active loan populations
- Over 60 percent of all underwater properties sit in 2000-2007 vintages; half are in 2005-2007 vintages
- HARP was intended to limit some of this impact and allow underwater borrowers to refinance their mortgage; however, HARP only applies to borrowers with GSE mortgages who are current on their loans, among other factors
- As can be seen via the active mortgage distribution, lingering negative equity rates have resulted in a higher concentration of Tier 1 properties in pre-crisis vintages while a higher concentration of Tier 5 properties are found in post-crisis vintages

NEGATIVE EQUITY UPDATE

Non-Current Rates and Underwater Amounts of Negative Equity Loans

	All Loans				Non-Current Loans (30+ DQ including FC)				
Current CLTV Bucket	Total Loan Count	1st Lien UPB Underwater	2nd Lien Debt Underwater	Avg Underwater Amount	Non-Current Rate	Non-Current Loan Count	1st Lien UPB Underwater	2nd Lien Debt Underwater	Avg Underwater Amount
150+	606 K	$44.0 B	$11.8 B	$92 K	69%	421 K	$30.9 B	$7.8 B	$92 K
141-150	187 K	$8.3 B	$3.7 B	$64 K	59%	111 K	$5.4 B	$2.0 B	$66 K
131-140	263 K	$9.3 B	$5.1 B	$55 K	51%	135 K	$5.4 B	$2.3 B	$57 K
121-130	393 K	$9.9 B	$6.9 B	$43 K	41%	161 K	$4.7 B	$2.2 B	$43 K
111-120	612 K	$9.1 B	$7.9 B	$28 K	30%	186 K	$3.3 B	$1.9 B	$28 K
101-110	1,164 K	$5.4 B	$4.5 B	$9 K	18%	208 K	$1.2 B	$0.8 B	$10 K
All Negative Equity	**3.2 M**	**$86.0 B**	**$40.0 B**	**$39 K**	**38%**	**1.2 M**	**$50.8 B**	**$17.0 B**	**$55 K**
Positive Equity	**47 M**				**3.7%**	**1.7 M**			

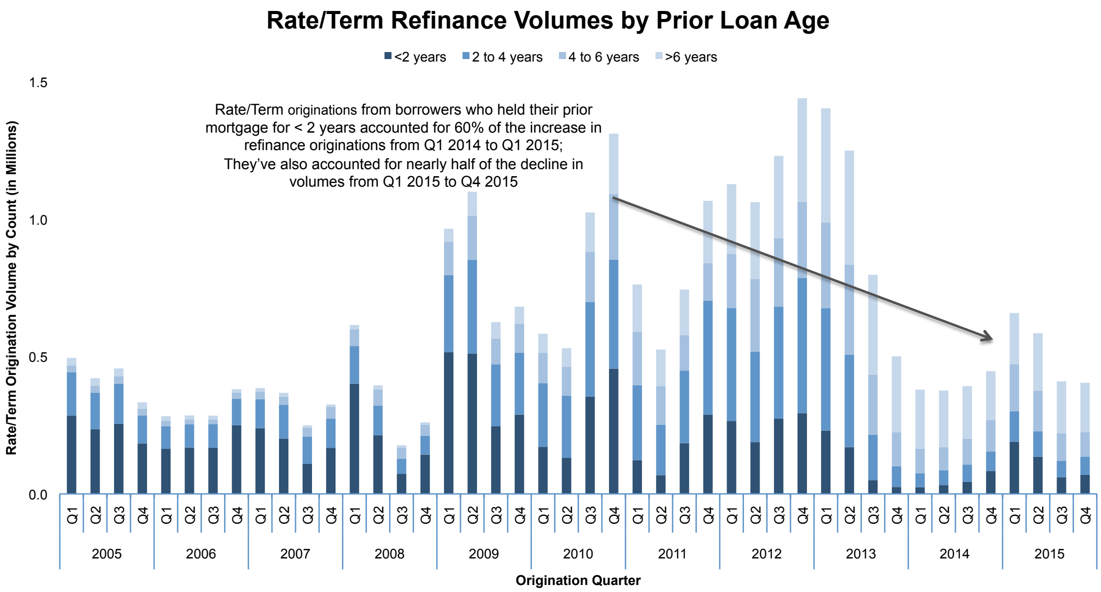
Filtered to Properties with GSE First Lien Mortgages

	All Loans				Non-Current Loans (30+ DQ including FC)				
Current CLTV Bucket	Total Loan Count	1st Lien UPB Underwater	2nd Lien Debt Underwater	Avg Underwater Amount	Non-Current Rate	Non-Current Loan Count	1st Lien UPB Underwater	2nd Lien Debt Underwater	Avg Underwater Amount
150+	143 K	$8.2 B	$2.3 B	$74 K	52%	75 K	$4.6 B	$1.3 B	$79 K
141-150	56 K	$2.2 B	$0.9 B	$56 K	40%	22 K	$0.9 B	$0.4 B	$60 K
131-140	87 K	$2.9 B	$1.3 B	$48 K	31%	27 K	$1.0 B	$0.4 B	$51 K
121-130	143 K	$3.5 B	$1.8 B	$37 K	24%	34 K	$0.9 B	$0.5 B	$39 K
111-120	246 K	$3.9 B	$2.1 B	$24 K	17%	42 K	$0.7 B	$0.4 B	$25 K
101-110	443 K	$2.3 B	$1.3 B	$8 K	11%	51 K	$0.3 B	$0.2 B	$9 K
All Negative Equity	**1.1 M**	**$23.0 B**	**$9.7 B**	**$29 K**	**22%**	**251 K**	**$8.3 B**	**$3.1 B**	**$46 K**
Positive Equity	**27 M**				**1.9%**	**517 K**			

- » As of the end of 2015, there were 3.2 million borrowers in negative equity positions, representing $126 billion in underwater first and second lien housing debt – this breaks out to $86 billion in first lien balances and $40 billion in second lien debt
- » There is a tremendous correlation between negative equity and mortgage delinquency; underwater borrowers are 10x more likely to be delinquent on their mortgage than those with positive equity
- » Nearly 70% of borrowers with current combined loan to value ratios (CLTVs) of 150 percent or higher are delinquent
- » There is $51 billion in first lien principal underwater on delinquent mortgages, and an additional $17 billion in 2nd lien debt
- » We see just over 1.1 million GSE mortgages in a negative equity position, representing $23 billion of underwater first lien principal; of that, $8.3 billion is associated with delinquent mortgages
- » The average underwater amount on a delinquent GSE mortgage in a negative equity position is $46,000
- » Underwater GSE mortgages are 12x more likely to be delinquent than those with equity

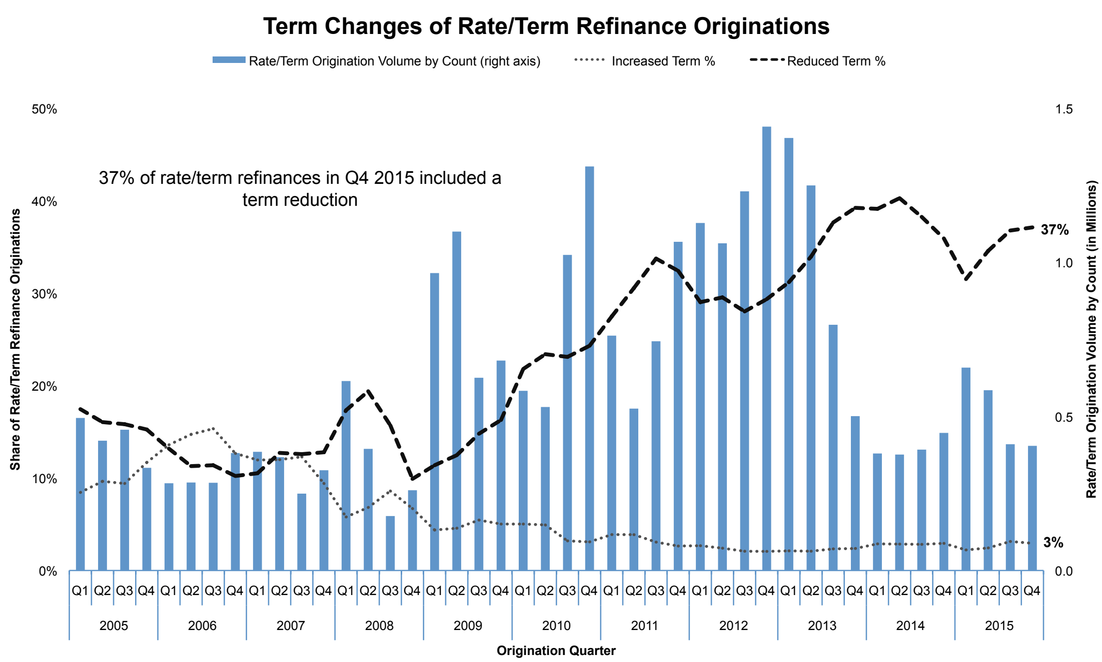
REFINANCE ACTIVITY DEEP DIVE

Here, we take an in-depth look at recent refinance originations, providing insight into the actions of "serial refinancers," term reductions and cash-out refinance activity. 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.



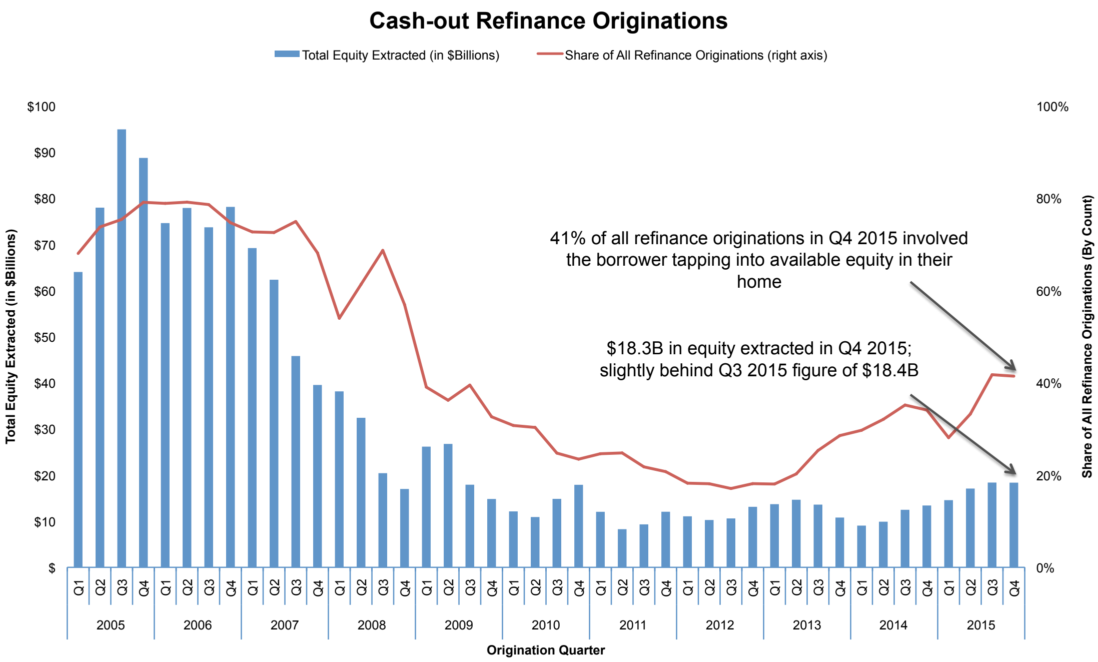
- Looking at rate/term refinance volumes by prior loan age, it becomes clear that "serial refinancers" played a large role in the early 2015 refinance wave
- Rate/term refinances from borrowers who held their prior mortgage for less than 2 years jumped by 800 percent from Q1 2014 to Q1 2015 as interest rates dropped
- Two thirds of rate/term refinance in Q4 came from borrowers who held their prior mortgage for >4 years
- During the housing peak from 2005–2006 nearly all refinance volume was coming from borrowers who held their prior mortgage for less than 4 years
- Despite significant interest rate fluctuation over the past 24 months, rate/term refinance origination volumes from borrowers who held their prior mortgage for >6 years have remained relatively steady during that timeframe

REFINANCE ACTIVITY DEEP DIVE



- » Term reductions remain popular among borrowers taking advantage of low rates; not surprisingly they are more popular among more aged loans, as borrowers don't want to restart the clock on their mortgage
- » 37 percent of rate/term refinances in Q4 2015 included a term reduction
- » Average loan age of term reduction refinances is 81 months – nearly 7 years, as compared to 60 months for those with the same or an increased term (only 3 percent of rate/term refinances included a term increase, which is historically low)
- » Increasing popularity of term reduction refinances has contributed to a shift in the active mortgage universe: 5 percent of all active mortgages had 20-year original terms (highest share in over 10 years); 16 percent are 15-year original term; and 2.5 percent are 10-year original term (down slightly from last year)

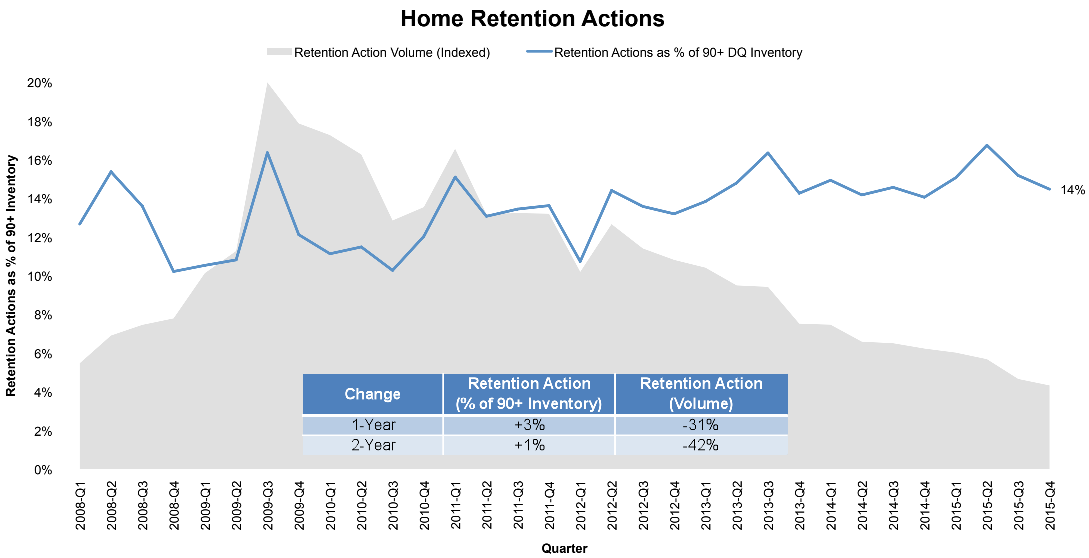
REFINANCE ACTIVITY DEEP DIVE



- There was $68 billion in equity extracted via cash-out refinance transactions in 2015, the most since 2009 and a 53 percent increase over 2014
- The slight reduction in equity extracted, and cash-out market share, in Q4 may be attributed to rising interest rates toward the end of the year
- The average cash-out amount continues to climb well above $60,000 per borrower
- Cash-out refinance borrowers continue to represent a relatively low risk profile for lenders; the average post-cash-out LTV is 67 percent, with an average credit score of just under 750
- California accounted for 42 percent of all equity extracted via cash-out refinances nationwide in Q4 2015 at $7.6 billion, with an average cash-out amount of $96,000 per borrower

LOSS MITIGATION UPDATE

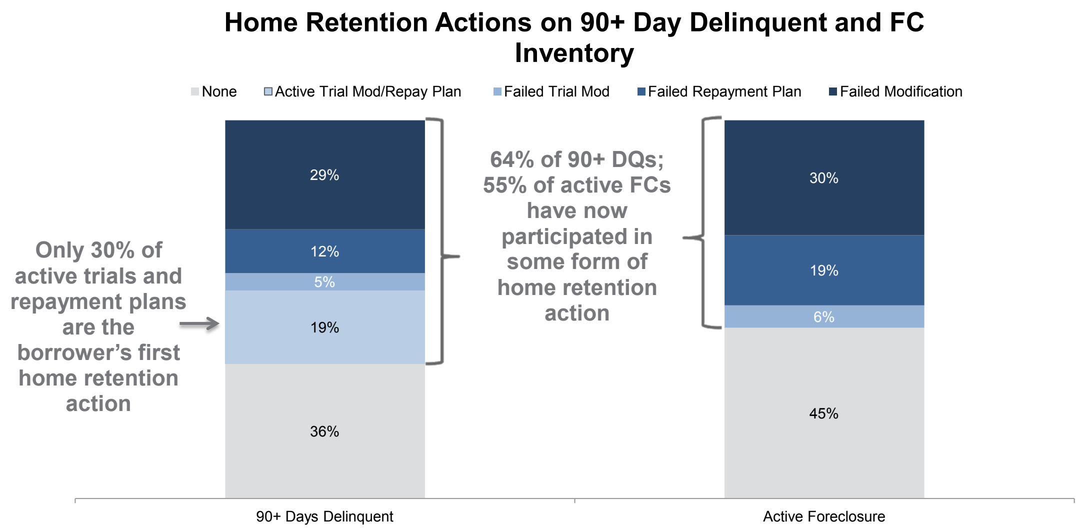
Here we look at the current state of home retention actions (loan modifications and repayment plans) and how they relate to the remaining inventory of loans either seriously delinquent or in active foreclosure. This information has been compiled from Black Knight's McDash loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.



• Home Retention Actions above include trial modifications, repayment plans, and permanent HAMP and proprietary modifications
• Retention Actions as % of 90+ DQ Inventory is the 3-Month weighted average for the quarter.

- » Home retention actions reviewed include trial modifications, repayment plans and permanent HAMP and proprietary modifications
- » Overall retention plans in Q4 2015 were down 31 percent from last year by volume, and down 42 percent from 2 years ago
- » As a percentage of 90+ day delinquent loans, they're up 3 percent from last year and one percent from the year before; essentially the same amount of modification and retention activity is taking place per capita as in the past
- » Roughly three quarters of retention actions are trials and repays, with the other quarter being completed modifications
- » Proprietary modifications have primarily driven mod volumes in 2015 accounting for 70-75 percent of all modifications
- » Note: HAMP is scheduled to expire at the end of 2016, barring an additional extension of the program

LOSS MITIGATION UPDATE



- *Home retention actions are based on the following waterfall (1) Active Trial Mod/Repay Plan (2) Permanent Modification (3) Repayment Plan Initiated (4) Trial Modification Initiated; and are not necessarily representative of the most recent retention action.*
- *Data is based on a sample of first lien mortgages where loss mitigation information is available. Sample size equates to roughly 40% of the first lien servicing market*

» 64 percent of 90+ day delinquent inventory and 55 percent of loans in active foreclosure have now been through some type of home retention action

» The saturation rate was up 3 percent in both categories over the past 12 months, driven in part by increased retention activity as a percentage of remaining inventory as well as a reduction in new 90-day delinquent loans

» Roughly 1/3 of the loans shown as modifications in this chart have been through multiple modification actions

APPENDIX

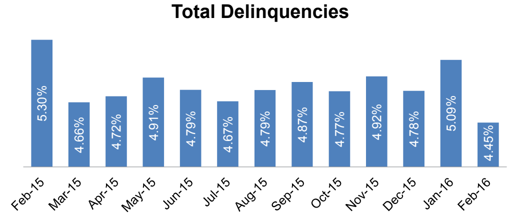
» February 2016 Data Summary

Summary Statistics

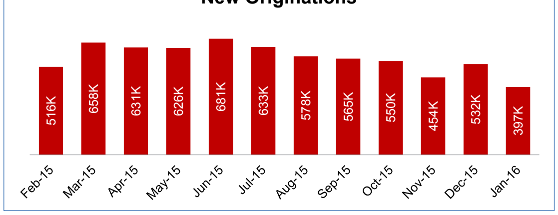
	Feb-16	Monthly Change	YTD Change	Yearly Change
Delinquencies	4.45%	-12.57%	-12.57%	-15.93%
Foreclosure	1.30%	-0.64%	-0.64%	-24.59%
Foreclosure Starts	84,300	17.25%	17.25%	9.20%
Seriously Delinquent (90+) or in Foreclosure	2.82%	-4.25%	-4.25%	-24.48%
New Originations (data as of Jan-16)	397K	-25.3%	-25.3%	-5.3%

	Feb-16	Jan-16	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15	Jun-15	May-15	Apr-15	Mar-15	Feb-15
Delinquencies	4.45%	5.09%	4.78%	4.92%	4.77%	4.87%	4.79%	4.67%	4.79%	4.91%	4.72%	4.66%	5.30%
Foreclosure	1.30%	1.30%	1.37%	1.38%	1.43%	1.46%	1.48%	1.52%	1.56%	1.59%	1.63%	1.68%	1.72%
Foreclosure Starts	84,300	71,900	78,100	66,600	73,200	79,900	76,200	71,500	78,100	77,400	70,400	92,200	77,200
Seriously Delinquent (90+) or in Foreclosure	2.82%	2.95%	2.97%	3.02%	3.05%	3.08%	3.12%	3.18%	3.25%	3.33%	3.43%	3.51%	3.74%
New Originations		397K	532K	454K	550K	565K	578K	633K	681K	626K	631K	658K	516K

Total Delinquencies



New Originations



» 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%
1/31/16	50,541,353	1,298,682	444,594	831,284	659,237	3,233,797	71,900	495	1,047	126.1%
2/29/16	50,562,450	1,102,328	377,130	772,441	655,311	2,907,210	84,305	489	1,064	117.9%

APPENDIX

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

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		**4.4%**	**1.3%**	**5.7%**	**-18.1%**
MS		10.1%	1.3%	11.4%	-14.5%
LA	*	7.9%	1.6%	9.6%	-10.0%
NJ	*	5.1%	4.1%	9.2%	-19.5%
NY	*	4.7%	3.6%	8.4%	-19.6%
AL		7.4%	0.8%	8.2%	-13.8%
RI		5.9%	2.0%	8.0%	-22.3%
ME	*	5.3%	2.7%	8.0%	-19.4%
WV		6.8%	1.0%	7.8%	-9.6%
DE	*	5.2%	2.1%	7.4%	-13.1%
PA	*	5.5%	1.8%	7.2%	-16.1%
FL	*	4.8%	2.4%	7.2%	-26.8%
IN	*	5.5%	1.5%	7.0%	-15.7%
OK	*	5.2%	1.8%	7.0%	-10.4%
AR		5.9%	1.1%	7.0%	-17.4%
CT	*	4.9%	2.0%	6.9%	-18.7%
HI	*	3.5%	3.4%	6.9%	-18.1%
SC	*	5.4%	1.5%	6.8%	-15.4%

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		**4.4%**	**1.3%**	**5.7%**	**-18.1%**
MD	*	5.3%	1.5%	6.8%	-18.6%
GA		6.0%	0.7%	6.7%	-15.1%
TN		6.0%	0.6%	6.6%	-19.4%
NM	*	4.2%	2.3%	6.6%	-12.9%
OH	*	4.9%	1.5%	6.4%	-17.2%
MA		4.6%	1.6%	6.2%	-22.7%
TX		5.4%	0.7%	6.0%	-10.9%
NC		5.1%	0.8%	5.9%	-16.5%
NV		4.0%	1.8%	5.8%	-23.0%
IL	*	4.3%	1.4%	5.7%	-21.0%
KY	*	4.4%	1.3%	5.7%	-18.1%
VT	*	3.7%	1.8%	5.5%	-21.1%
KS	*	4.3%	1.1%	5.4%	-15.7%
DC		3.3%	2.1%	5.3%	-17.3%
MO		4.7%	0.6%	5.3%	-17.5%
WI	*	3.9%	1.1%	5.0%	-18.7%
NH		4.1%	0.8%	4.8%	-26.1%

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		**4.4%**	**1.3%**	**5.7%**	**-18.1%**
MI		4.3%	0.4%	4.7%	-19.4%
IA	*	3.4%	1.1%	4.5%	-16.5%
VA		4.0%	0.5%	4.5%	-16.3%
WY		3.3%	0.9%	4.2%	-3.8%
UT		3.6%	0.5%	4.1%	-16.3%
NE	*	3.5%	0.5%	4.0%	-17.9%
WA		2.7%	1.2%	3.9%	-22.7%
OR		2.6%	1.3%	3.9%	-23.4%
AZ		3.3%	0.5%	3.7%	-15.0%
CA		3.2%	0.5%	3.7%	-13.1%
ID		2.7%	0.9%	3.5%	-17.2%
MT		2.5%	0.7%	3.2%	-14.2%
AK		2.6%	0.4%	3.0%	-14.6%
SD	*	2.3%	0.7%	3.0%	-15.9%
CO		2.5%	0.4%	3.0%	-18.0%
MN		2.5%	0.4%	2.9%	-20.1%
ND	*	1.6%	0.5%	2.2%	-7.2%

** - Indicates Judicial State*

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