

JULY 2016 REPORT



MORTGAGEMENT MONITOR

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JUNE 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, we begin a look at some of the high-level mortgage performance statistics reported in the company's most recent First Look report, with updates on delinquency, foreclosure, and prepayment trends. From there, we return to second lien home equity line of credit (HELOC) performance, placing a particular focus on those lines of credit facing their draw period resets.

Next, we look at the first lien mortgage origination landscape at the halfway point in 2016. In particular, we focus in on Q2 2016 originations on both the purchase and refinance sides of the market, looking at volume and credit metrics. Finally, we examine recent trends in distressed residential real estate transactions (REO or short sales). We also look at the discounts buyers of distressed properties are reaping on the purchase of such assets, with an examination of how those discounts are playing out on a state-by-state basis.










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.



**JULY FIRST
LOOK FINDINGS**

Here we have an overview of findings from [Black Knight's 'First Look' at July 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.

Mortgage Monitor "First Look": Database as of July 31, 2016

	Jul-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):	4.51%	↑ 4.78%	↓ -3.38%	
Total U.S. foreclosure pre-sale inventory rate:	1.09%	↓ -1.68%	↓ -28.36%	
Total U.S. foreclosure starts:	61,300	↓ -11.54%	↓ -14.27%	
Monthly Prepayment Rate (SMM):	1.26%	↓ -11.98%	↓ -1.00%	
Foreclosure Sales as % of 90+:	1.99%	↓ -13.65%	↑ 1.05%	
Number of properties that are 30 or more days past due, but not in foreclosure:	2,286,000	↑ 108,000	↓ -70,000	
Number of properties that are 90 or more days past due, but not in foreclosure:	695,000	↑ 3,000	↓ -147,000	
Number of properties in foreclosure pre-sale inventory:	550,000	↓ -8,000	↓ -214,000	
Number of properties that are 30 or more days past due or in foreclosure:	2,836,000	↑ 100,000	↓ -284,000	

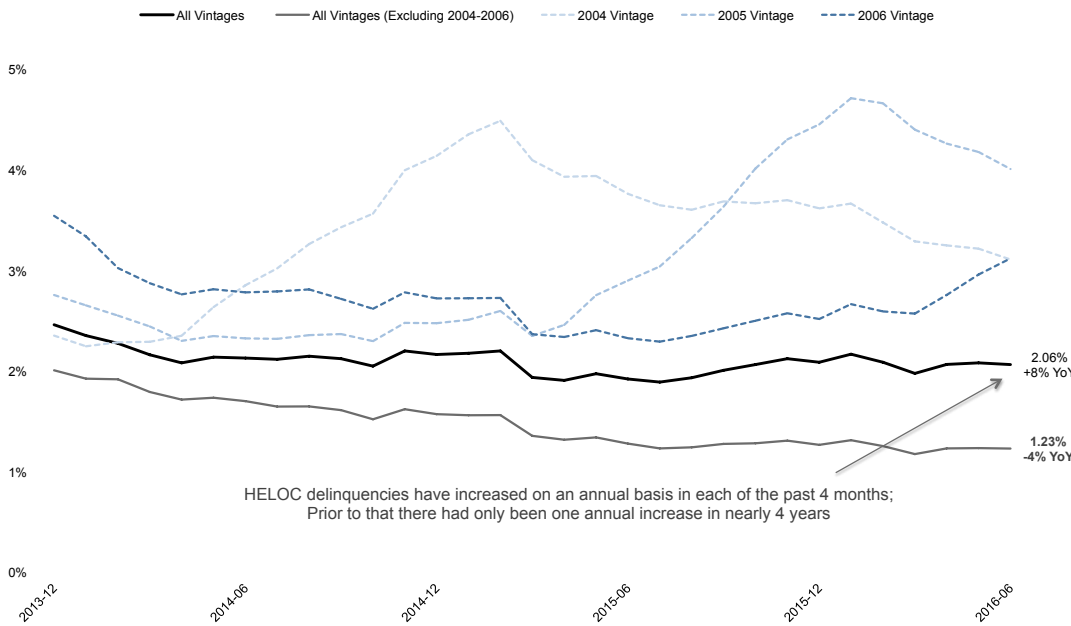
- » The national delinquency rate rose by nearly five percent in July, though the increase was likely primarily calendar-driven, as the month ended on a Sunday
- » As we have noted before, Sunday month-ends typically see a rise in delinquencies as payments in such cases are not able to be processed on the final two calendar days of the month; such rises are typically followed by a reduction in the following month
- » Foreclosure starts fell 12 percent from June, making July's 61,300 the second lowest monthly total for foreclosure starts in over 10 years
- » July also saw the second lowest first time foreclosure start volume, on record dating back to at least 2000
- » The monthly prepayment rate fell by nearly 12 percent despite an increased number of refinance candidates on the market and interest rates hovering near record lows.
- » The inventory of loans in active foreclosure continued its long-term downward trend, having fallen 20 percent year-to-date, and at just 550,000, hitting its lowest point since July 2007



SECOND LIEN HELOC PERFORMANCE UPDATE

Here we conduct a review of second lien home equity lines of credit (HELOC) performance, with a particular focus on those lines of credit facing draw period resets. 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.

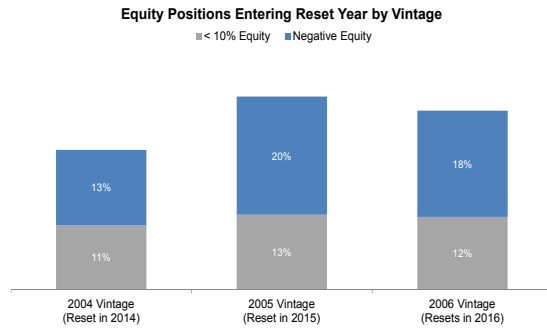
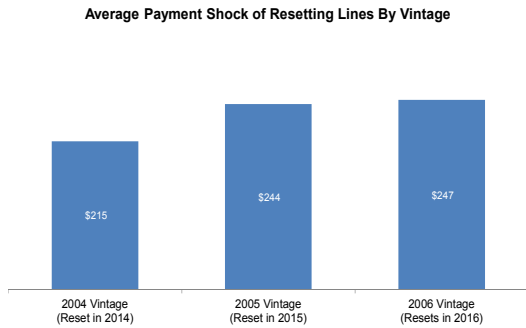
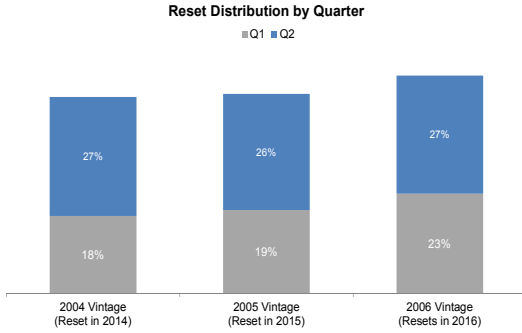
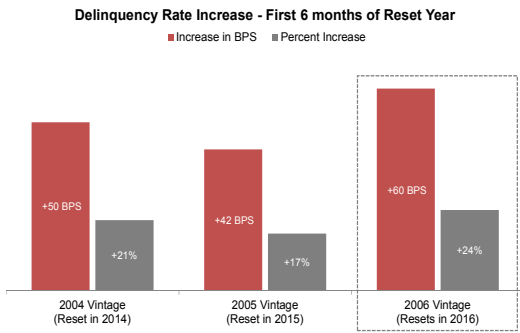
Second Lien HELOC Delinquency Rates



- » The second Lien HELOC delinquency rate continues to rise, having now seen annual increases for four consecutive months; prior to that there had only been one annual increase in nearly 4 years
- » As of June, HELOC delinquency rates were eight percent higher than at this point last year; as a point of comparison, delinquencies on first lien mortgages were down 10 percent over the same period
- » The rise is being driven almost entirely by delinquencies following draw period expirations in bubble-era (2004-2006) vintage HELOCs
- » The 83BPS degree of separation in delinquency rates between the market including and excluding bubble-era vintage HELOCs is up from ~43BPS in early 2014, clearly showing the 40BPS upward pull the resets of these vintages have had on overall HELOC delinquency rates



SECOND LIEN HELOC PERFORMANCE UPDATE



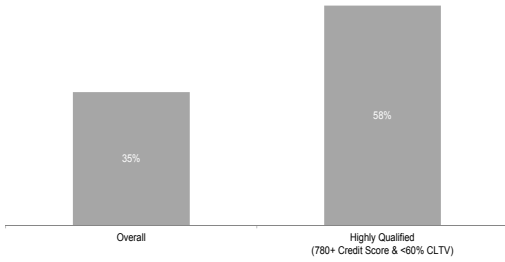
*Based on comparative delinquency rate increases within the first 6-months of the resetting year; Assumes 10-year draw periods for all lines of credit

- » Delinquency rates on 2006 vintage HELOCs rose 24 percent over the first half of 2016, a more pronounced initial increase than had been seen from the 2004 and 2005 vintages during their reset years
- » 50 percent of 2006 vintage resets occurred in the first half of 2016, as compared to 45 percent for the prior few vintages, making for a more front-loaded reset-fueled delinquency spike; if this is indeed a primary driver behind the more pronounced 2006 vintage delinquencies, we may begin to see some normalization over the back half of 2016
- » Another driver may be that payment shocks are peaking this year, with the average post-reset monthly HELOC payment rising by nearly \$250, the highest we've seen for any vintage historically
- » Equity levels also remain an issue; while there are fewer underwater lines resetting this year as compared to 2015, 18 percent of 2006 HELOC borrowers owe more than their home is worth, and an additional 12 percent have less than 10 percent equity, making refinancing to avoid payment shocks problematic

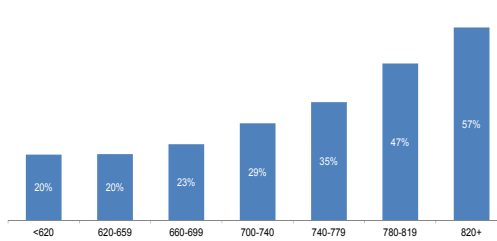


SECOND LIEN HELOC PERFORMANCE UPDATE

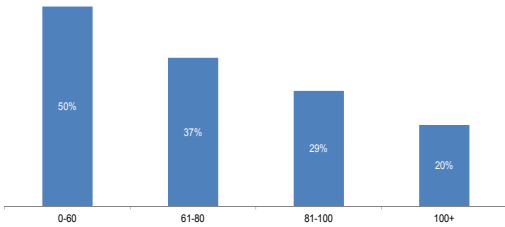
Share of 2006 Vintage HELOCs Liquidated During Resets*



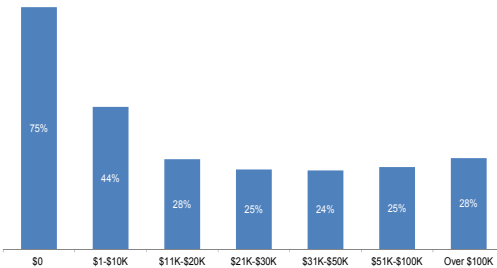
Share of 2006 Vintage HELOCs Liquidated During Resets* by Current Credit Score



Share of 2006 Vintage HELOCs Liquidated During Resets* by Current Combined LTV*



Share of 2006 Vintage HELOCs Liquidated During Resets* by Unpaid Principal Balance



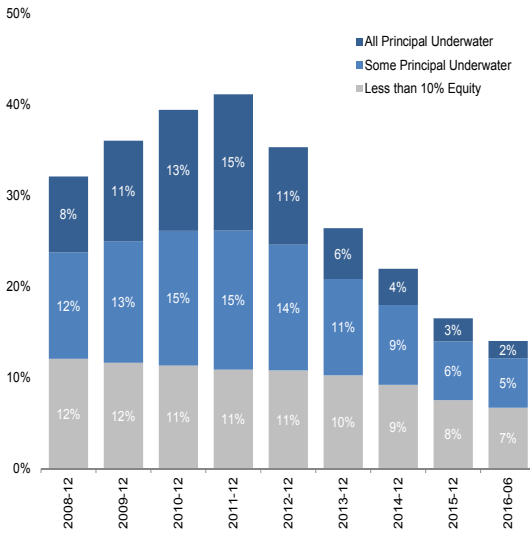
*Figures above represent the share of second lien HELOCs by line count that were active 12 months prior to the scheduled draw period expiration month that liquidated within 3 months after draw period expiration. The above figures assume a 10-year draw period and are limited to Q1 2016 scheduled resets

- » Significant prepayment activity has been observed, spurred by HELOC resets, though highly dependent on both borrower and line characteristics
- » Over one-third of borrowers facing resets payoff/close their lines during the reset timeframe (12 months before to 3 months after reset)
- » This is especially pronounced in high credit and low LTV cohorts, as well as in the low and high ends of payment shocks and unpaid principal balances (UPBs)
- » Because liquidations are more pronounced in lower risk segments of the market, it gives a more pronounced rise to overall delinquency rates, since the remaining population is of a higher risk than those who liquidated

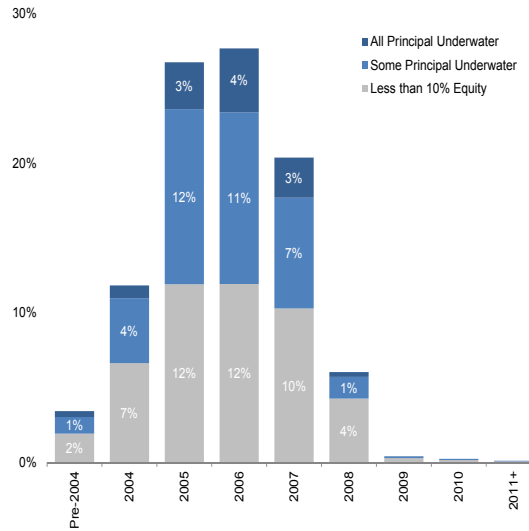


SECOND LIEN HELOC PERFORMANCE UPDATE

Second Lien HELOC Equity Positions Over Time



Current Second Lien HELOC Equity Positions By Vintage



- » As this chart shows, the negative equity rate on second lien HELOCs is only 7 percent, with only 2 percent of active HELOCs being completely underwater
- » For comparison, approximately 20 percent of second lien mortgages (as opposed to lines of credit) are in negative equity positions
- » Almost all negative equity in the HELOC market is relegated to bubble-era vintages, with 2005 and 2006 vintages seeing the highest levels; 15-16 percent of these lines have some degree of principal underwater and 3-4 percent are fully underwater
- » In earlier (pre-2004) and later (post-2009) vintages, negative equity positions are virtually non-existent



Q2 MORTGAGE ORIENTATION OVERVIEW

Here we conduct an analysis of Q2 2016 mortgage originations on both the purchase and refinance sides of the market. We look at volume and credit metrics to help paint a picture of the current origination landscape. 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.

First Lien Mortgage Origination Volumes (in \$Billions)

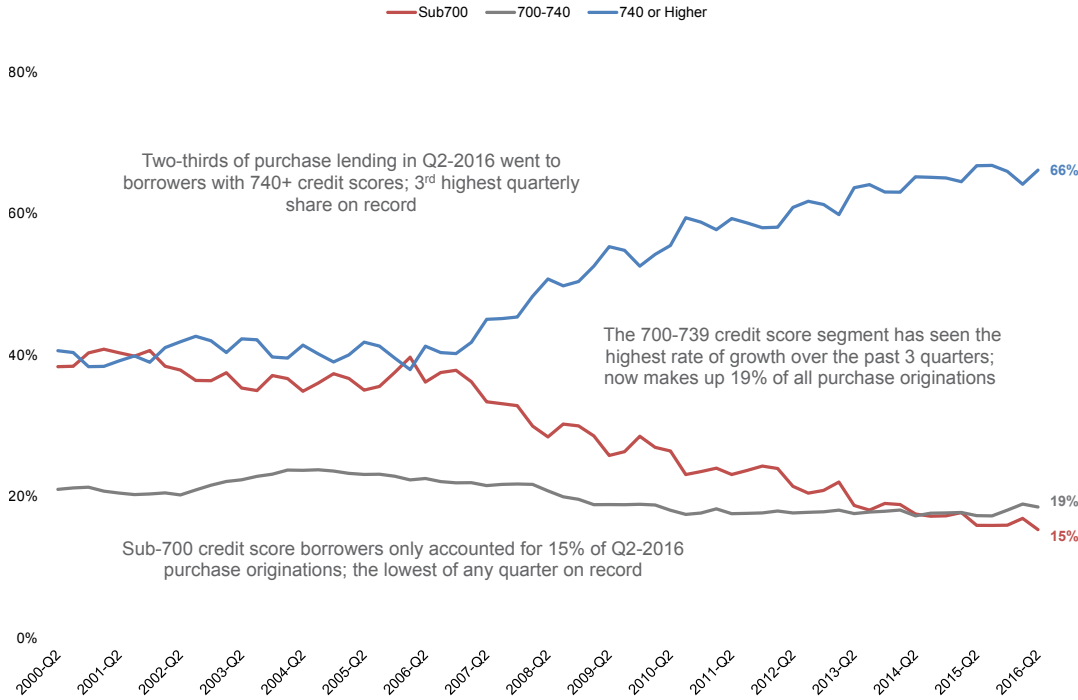


- » At \$518 billion, first lien mortgage originations marked the highest volume seen in a single quarter since Q2 2013, driven by a combination of continued purchase origination growth and refinance activity spurred by low interest rates
- » It was a particularly strong month for purchase originations, which made up 57 percent of all first lien lending in the quarter
- » At \$297 billion, purchase loan originations saw a 52 percent (\$102 billion) seasonal increase from Q1 and hit their highest level in terms of both volume and dollar amount since 2007
- » We are seeing a deceleration in purchase market growth on an annual basis at approximately six percent growth over Q2 last year, but down from over 20 percent growth for most of 2015
- » Refinance originations rose by 8 percent from Q1, but fell slightly below last year's levels



Q2 MORTGAGE ORIGATION OVERVIEW

Share of Purchase Lending by Original Credit Score Bucket

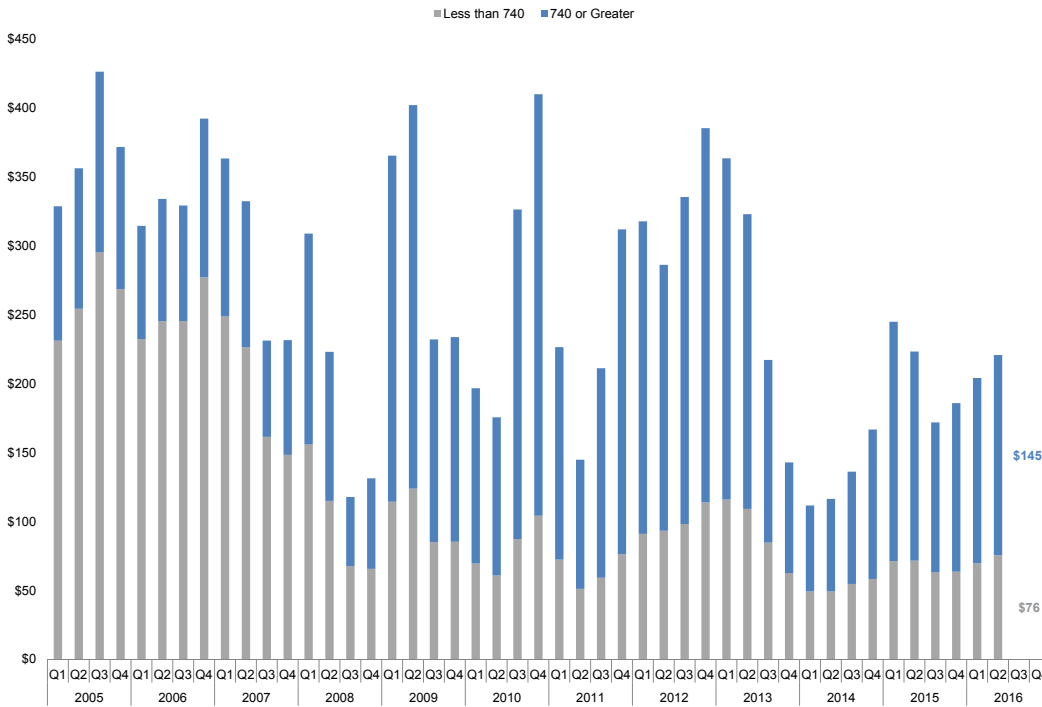


- » Two thirds of Q2 purchase loans went to borrowers with credit scores of 740 or higher – on par with what we saw during the same period last year
- » The “moderate credit” segment (700-739 credit scores) has seen a 13 percent year-over-year increase in lending – the highest rate of growth of any credit bucket over the last three quarters and twice the annual growth rate of the overall purchase market – and now makes up 19 percent of all purchase originations
- » On the other end of the spectrum, sub-700 score borrowers now account for only 15 percent of originations, with less than five percent going to borrowers with scores of 660 or below; both of these mark the lowest share of low credit purchase lending seen, dating back to at least 2000



Q2 MORTGAGE ORIGATION OVERVIEW

Refinance Origination Volumes by Credit Score (in \$Billions)



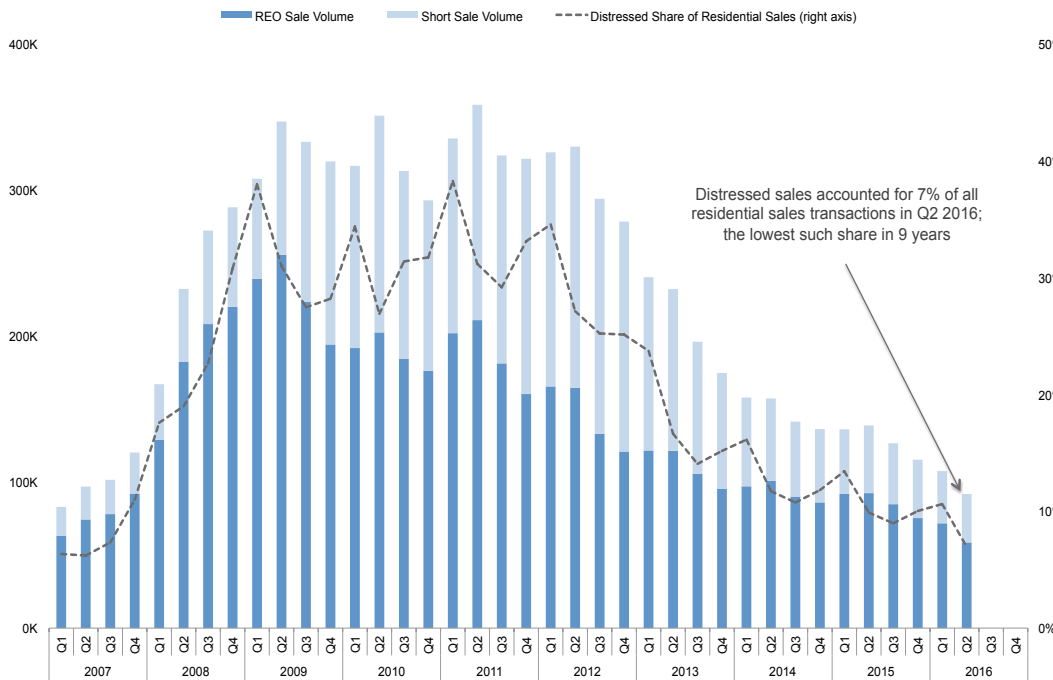
- » Refinance lending has risen in each of the past three quarters, primarily in the higher credit segments of the market
- » Looking at refinance originations on a credit score basis, we see that lower credit (sub-740) refinance originations have remained relatively flat and are actually above Q2 2015 levels, while most of the decline and fluctuation has taken place in higher credit segments of the market
- » We're also seeing an increase from last year on prepays of what loans remain in private labeled securities (PLS), as perhaps some of those borrowers who had been struggling with equity are finding their way into the daylight
- » GNMA loans continue to outpace all other investor segments with regard to prepays, as increases in equity allow GNMA borrowers to refinance out of mortgage insurance requirements and streamline products have made it easier for FHA borrowers to refinance
- » It's worth noting that in 2005/2006, nearly 3 out of every 4 refinances were being made to borrowers with credit scores lower than 740; today that ratio hovers closer to 1 in 3



DISTRESSED SALES & ASSOCIATED DISCOUNTS

Here, we examine recent trends in distressed residential real estate sales (REO or short sales). We also look at the discounts buyers of distressed properties are reaping on the purchase of such assets. This information has been compiled from Black Knight's [McDash](#) loan-level mortgage performance database and also leverages data from Black Knight's [Home Price Index](#). You may click on each chart to see its contents in high-resolution.

Distressed Residential Sales Transactions

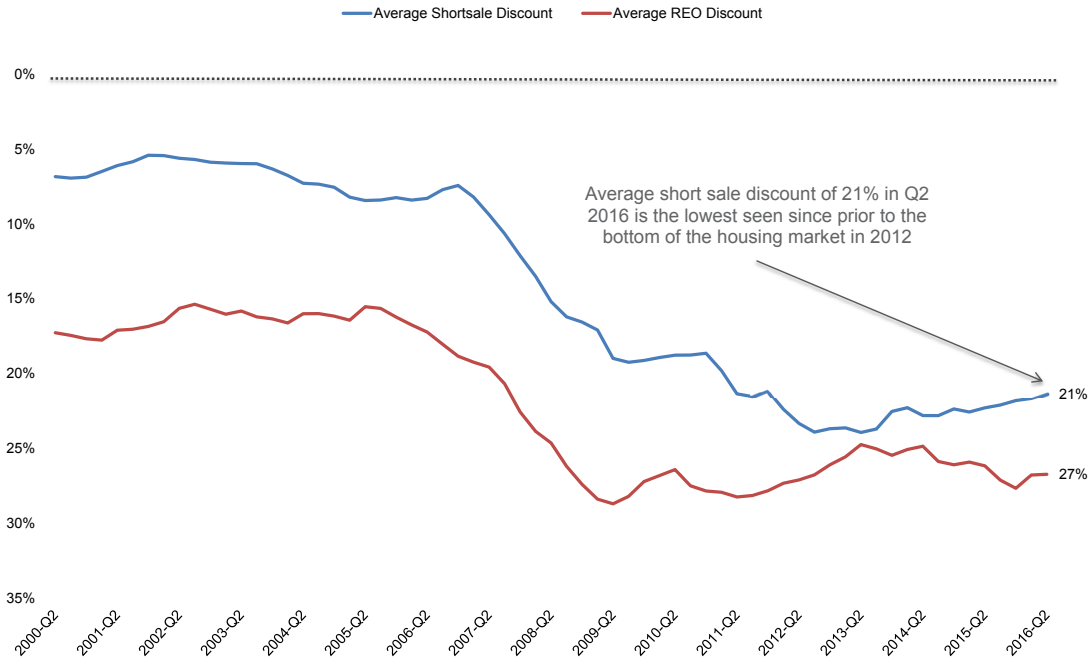


- » Distressed sales accounted for seven percent of all residential real estate transactions in Q2 2016, the lowest such share since Q2 2007, but still more than twice what would be seen in a 'normal' market
- » At the peak (Q2 2011), there were over 350,000 distressed sales in a single quarter, and distressed sales had accounted for nearly 40 percent of all transactions in Q1 2011; there are now less than 100,000 distressed sales per quarter
- » The makeup of the distressed market has been roughly 2/3 REO to 1/3 short sales for roughly two years; at the bottom of the market in 2012, short sales accounted for more than half of all distressed transactions
- » Nearly one out of every five distressed sales nationwide still occurs in Florida, but that share is waning as the state's severely delinquent and active foreclosure inventories continue to improve
- » The backlog and slower reduction of troubled inventories in New York and New Jersey has led to more sustained levels of distressed activity in those states



DISTRESSED SALES & ASSOCIATED DISCOUNTS

Distressed Sale Discounts by Quarter

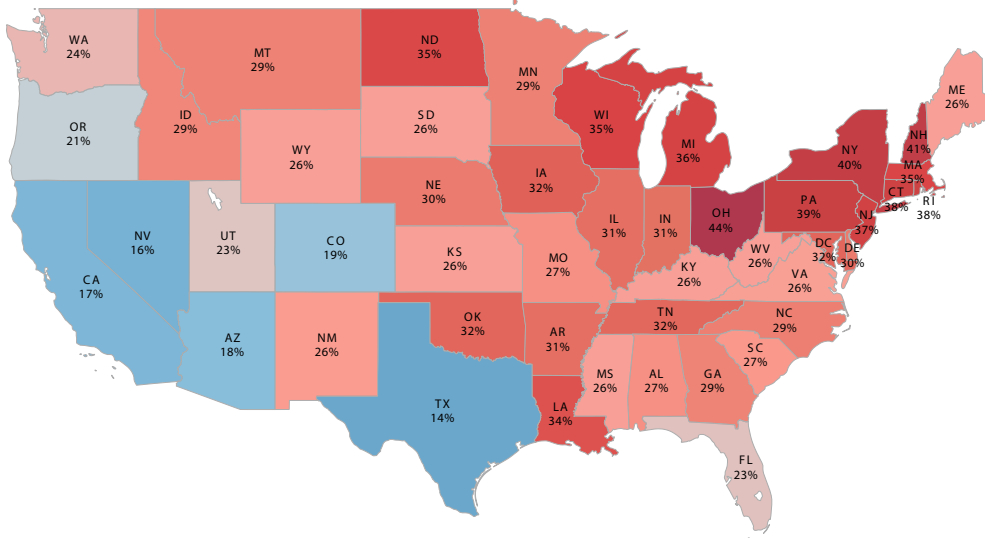


- » The average 21 percent discount purchasers are reaping on short sales is on the decline nationally – and is actually the lowest it’s been since before the housing market hit bottom in 2012 – while the 27 percent REO discount is actually slightly deeper than it was a year ago
- » The reduced short sale volumes and discounts may indicate servicers are less willing to deeply discount properties to avoid foreclosure, which may be driven by improving backlogs, or an overall optimistic assessment of alternate loss mitigation methods
- » The trend toward deepening REO discounts is likely due to the geographic shift in transactions from areas where discounts are lower – such as Florida, where the average REO discount is below the national average – to areas where they are steeper



DISTRESSED SALES & ASSOCIATED DISCOUNTS

Average REO Discount by State (2016 Year-to-Date)



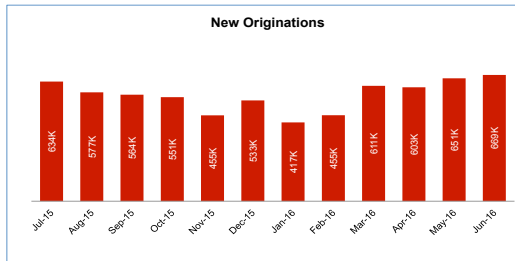
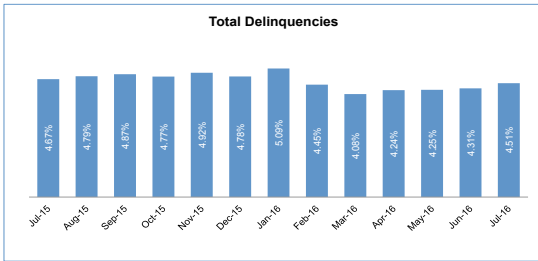
- » The largest REO discounts over the past six months have been seen in the Northeast and Rust Belt states
- » [March 2016 Mortgage Monitor](#) featured a scenario that looked at normalization of troubled mortgage inventories and found the Northeast among the last to normalize; this overall delayed recovery is likely playing a part in the higher levels of REO discounts
- » Ohio leads the nation with a 44 percent average discount on an REO over a traditional sale, followed by New Hampshire and New York, each with 41 percent discounts
- » The smallest REO discounts were found in the Southwest, with Texas (14 percent) and Nevada (16 percent) seeing the lowest of all
- » Nevada stands out in particular; though home prices there remain furthest behind 2006 peaks among all the states, the low REO discounts may suggest high enough demand for such properties in Las Vegas and surrounding areas to keep downward pressure on discounts



APPENDIX

	Jul-16	Monthly Change	YTD Change	Yearly Change
Delinquencies	4.51%	4.78%	-11.42%	-3.38%
Foreclosure	1.09%	-1.68%	-16.77%	-28.36%
Foreclosure Starts	61,300	-11.54%	-14.74%	-14.27%
Seriously Delinquent (90+) or in Foreclosure	2.46%	-0.64%	-16.67%	-22.83%
New Originations (data as of Jun-16)	669K	2.8%	25.3%	-1.9%

	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15
Delinquencies	4.51%	4.31%	4.25%	4.24%	4.08%	4.45%	5.09%	4.78%	4.92%	4.77%	4.87%	4.79%	4.67%
Foreclosure	1.09%	1.10%	1.13%	1.17%	1.25%	1.30%	1.30%	1.37%	1.38%	1.43%	1.46%	1.48%	1.52%
Foreclosure Starts	61,300	69,300	62,100	58,700	72,800	84,300	71,900	78,100	66,600	73,200	79,900	76,200	71,500
Seriously Delinquent (90+) or in Foreclosure	2.46%	2.47%	2.55%	2.62%	2.70%	2.82%	2.95%	2.97%	3.02%	3.05%	3.08%	3.12%	3.18%
New Originations		669K	651K	603K	611K	455K	417K	533K	455K	551K	564K	577K	634K



State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%	State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%	State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	4.5%	1.1%	5.6%	-9.3%	National	4.5%	1.1%	5.6%	-9.3%	National	4.5%	1.1%	5.6%	-9.3%
MS	10.6%	1.1%	11.7%	-6.8%	MD	5.4%	1.2%	6.6%	-9.0%	NH	4.2%	0.6%	4.8%	-9.1%
LA *	8.3%	1.4%	9.7%	-0.8%	FL *	4.7%	1.9%	6.6%	-18.3%	IA *	3.7%	0.9%	4.6%	-6.1%
NJ *	5.0%	3.9%	8.9%	-10.6%	OH *	5.2%	1.3%	6.5%	-8.3%	VA	4.0%	0.4%	4.4%	-5.0%
WV	7.5%	0.9%	8.3%	1.8%	NM *	4.4%	1.9%	6.4%	-7.4%	WY	3.7%	0.6%	4.3%	2.5%
AL	7.5%	0.7%	8.2%	-6.1%	HI *	3.4%	3.0%	6.3%	-13.1%	UT	3.5%	0.4%	4.0%	-7.8%
NY *	4.8%	3.2%	8.0%	-12.0%	TX	5.6%	0.5%	6.1%	-3.4%	NE *	3.5%	0.4%	3.8%	-13.0%
ME *	5.4%	2.6%	8.0%	-9.8%	MA	4.6%	1.3%	6.0%	-10.7%	AZ	3.2%	0.4%	3.6%	-5.3%
RI	5.9%	1.7%	7.7%	-13.4%	NC	5.2%	0.7%	5.8%	-7.3%	WA	2.7%	0.9%	3.6%	-18.9%
IN *	6.0%	1.2%	7.3%	-7.1%	VT *	4.0%	1.8%	5.7%	-1.6%	OR	2.4%	1.1%	3.5%	-18.6%
OK *	5.6%	1.6%	7.2%	-2.6%	KY *	4.6%	1.1%	5.7%	-9.6%	CA	3.0%	0.4%	3.4%	-6.0%
PA *	5.7%	1.4%	7.1%	-7.6%	KS *	4.7%	0.9%	5.6%	-3.6%	AK	3.0%	0.4%	3.4%	6.1%
DE *	5.3%	1.8%	7.1%	-7.4%	IL *	4.3%	1.2%	5.5%	-11.3%	ID	2.7%	0.6%	3.3%	-12.7%
AR	6.1%	0.9%	7.0%	-9.3%	MO	4.9%	0.6%	5.4%	-6.9%	SD *	2.5%	0.6%	3.1%	-4.7%
CT *	5.0%	1.8%	6.8%	-6.6%	DC	3.3%	1.8%	5.1%	-9.0%	MT	2.5%	0.6%	3.1%	-4.9%
GA	6.2%	0.6%	6.8%	-5.9%	NV	3.6%	1.5%	5.1%	-20.3%	MN	2.6%	0.3%	2.9%	-6.5%
TN	6.2%	0.5%	6.7%	-9.9%	WI *	4.1%	0.9%	5.0%	-9.6%	CO	2.5%	0.3%	2.7%	-12.1%
SC *	5.4%	1.2%	6.6%	-7.9%	MI	4.6%	0.3%	4.9%	-5.5%	ND *	2.0%	0.5%	2.6%	21.5%

* - Indicates Judicial State

» July 2016 Data Summary

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



APPENDIX

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
1/31/00	40,192,541	1,176,769	296,820	374,724	234,074	2,082,387	55,426	241	331	160.1%
1/31/01	42,340,690	1,321,334	346,119	438,737	223,602	2,329,792	63,753	211	304	196.2%
1/31/02	43,454,963	1,353,355	380,012	515,985	340,401	2,589,754	90,160	219	289	151.6%
1/31/03	44,275,177	1,331,861	365,393	494,180	344,037	2,535,471	101,211	231	297	143.6%
1/31/04	44,769,847	1,186,809	352,515	501,740	321,294	2,362,357	77,360	269	344	156.2%
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%
3/31/16	50,533,910	986,412	343,124	732,765	630,766	2,693,065	72,762	514	1,071	116.2%
4/30/16	50,662,957	1,063,480	351,929	730,179	595,235	2,740,824	58,728	520	1,088	122.7%
5/31/16	50,654,959	1,072,189	361,463	719,283	574,035	2,726,970	62,085	519	1,092	125.3%
6/30/16	50,568,835	1,112,478	372,917	692,370	558,345	2,736,110	69,250	519	1,087	124.0%
7/31/16	50,669,860	1,198,629	392,644	695,148	550,075	2,836,496	61,253	502	1,084	126.4%

» **Loan counts and average days delinquent**



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*

