Loan Foreclosures & Delinquencies vs. Lender Workouts

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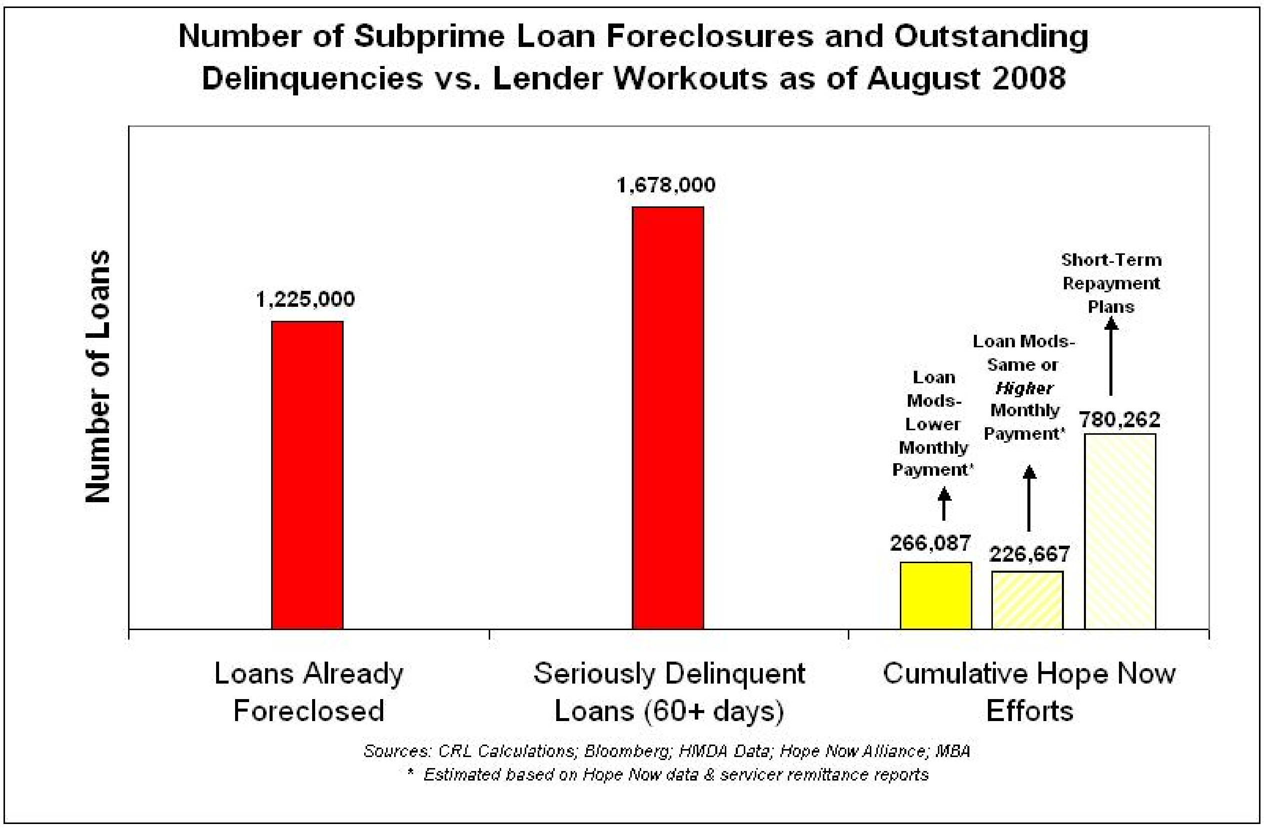
The government plan announced by Treasury Secretary Paulson and Federal Reserve Chairman Bernanke fails to deal with the root cause of the crisis—families in foreclosure—and instead is simply a bailout of the lenders who created this disaster. The plan will not solve our economic problems, because it will do virtually nothing to stop the foreclosure epidemic. Continuing foreclosures will drag down the economy even further.

CRL has analyzed the performance of subprime loans included in ABX.HE indices, which are representative of the broader subprime loan market.[1] Based on this analysis, **we estimate that over 1.2 million homes have already been lost through subprime foreclosure, and another 1.7 million families with subprime loans are in serious danger of losing their homes in the near future.** [2]

In addition, published results by Hope Now—a consortium of mortgage lenders and investors established to assist struggling homeowners—clearly show that the foreclosure crisis continues to overwhelm the industry's voluntary attempts to renegotiate unaffordable home loans.[3] (See chart below.) Even worse, a recent study shows that the voluntary loans modifications by lenders typically are increasing a borrower's principal debt, and that many modifications are not even reducing monthly payments.[4]



The Paulson bailout plan buys distressed loans from financial institutions, but because of existing contracts and the complicated structure of mortgage-backed securities, the government won't be able to modify mortgages—they will simply become the party that forecloses. The only good plan is to allow homeowners an opportunity to get loan changes through the legal system. Judicial loan modifications would give judges the authority to modify harmful mortgages marketed by unscrupulous lenders and would help save hundreds of thousands of families from losing their homes.

Notes

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[1] The ABX.HE is a credit default swap index administered by Markit, a financial information services company, and linked to 20 subprime residential mortgage-backed securities. To date, the index has issued four series, each six months apart, covering the last half of 2005 through the first half of 2007. In total, the ABX.HE series includes 80 subprime securities originally comprising 633,217 loans with $120.7 billion volume and representing approximately 14% of the subprime securities market for that time period. The loans making up the ABX.HE securities are considered to be a benchmark of the overall subprime securities market. According to Moody's Investor Service, "the performance of the pools underlying the ABX indices, closely tracks the performance of the respective wider subprime universe" (*ABX Performance Update*. Oct 2007, Page 2)

[2] Details of CRL calculations are as follows:

Loans Already Foreclosed
We used the performance data from the ABX.HE index to calculate the total number of loans that are currently in the REO status as well as the cumulative number of charged-off loans to arrive at the percentage of loans that have already foreclosed. Charge-offs were calculated by using cumulative loss amount reported for each security (as reported 8-01-2008) divided by an assumed severity rate of .50 to arrive at the total original balance of the loans that were charged off from each security. We then divided this number by the original average loan amount of each security to determine an estimated number of charge-offs per security. We then divided the total number of REOs and Charge-offs by the total number of original loans from the ABX.HE cohorts to arrive at a percentage of loans that have already foreclosed. We then applied this percentage (13.0%) to the overall number of subprime loans originated from 2005-2007 as reported by HMDA (9,421,849) to calculate the total number of subprime loans already foreclosed (1,225,004).

Seriously Delinquent Loans
In order to measure the current performance of the various cohorts to look at the delinquency trends that are occurring over time, we tracked all ABX.HE loans that were reported 60 days or more delinquent, including those in the process of foreclosure, against the outstanding number of loans reported for each month. We then used the outstanding number of loans within each security to derive an overall weighted average 60+ delinquency percentage for all loans reported in the ABX.HE index (24.23%). We then applied this percentage to the total number of outstanding subprime loans (6,926,829) as of 2Q 2008 to arrive at a total number of seriously delinquent borrowers (1,678,202). (The Mortgage Bankers Association reported 5,541,463 outstanding subprime loans in its 2Q 2008 National Delinquency Survey. Because MBA indicates that their survey represents approximately 80% of the total first-lien mortgage market, we divided their reported number of subprime loans by .80 to calculate the total number of outstanding subprime borrowers.)

[3] *HOPE NOW Loss Mitigation National Data July07 to July08,* Hope Now Alliance, available at http://www.hopenow.com/upload/data/files/HOPE%20NOW%20Loss%20Mitigation%20National%20Data%20July07%20to%20July08.pdf

[4] White, Alan M. *Rewriting Contracts, Wholesale: Data on Voluntary Mortgage Modifications from 2007 and 2008 Remittance Reports* (August 26, 2008). Available at http://ssrn.com/abstract=1259538