AMI ASSOCIATION OF MORTGAGE INVESTORS

September 7, 2012

Alfred Pollard, Esq.
General Counsel
Federal Housing Finance Agency (FHFA)
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

Via email: eminentdomainOCG@fhfa.gov

Re: No. 2012-N-11, The Use of Eminent Domain to Restructure Performing Loans

Dear Mr. Pollard,

The Association of Mortgage Investors (AMI) submits the following statement to supplement the views expressed in the stakeholder "joint response" to the Agency's Federal Register notice request for input and comments. We emphasize that nothing in the following comment letter should be construed as contradicting or detracting from those views expressing our strong opposition to the use of eminent domain in this context or as a foreclosure mitigation tool generally.

Background

The AMI was organized as the primary trade association representing investors in mortgage-backed securities, including university endowments and pension funds. The AMI was founded to play a primary role in the analysis, development, and implementation of mortgage

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and housing policy to help keep homeowners in their homes and provide a sound framework that promotes continued home purchasing. Since its formation, the AMI has been developing a set of policy priorities that we believe can contribute to achieving this goal. We are an investor-only group comprised of a significant number of substantial institutional investors in commercial and residential mortgage-backed and other asset-backed securities. Our members manage a collective investment in ABS in excess of $300 billion.

We fully concur with FHFA's announced concerns about the use of eminent domain, including its dubious constitutionality, the potential to limit consumer credit and the economic harm to communities, the impact on securities and other institutional holdings, and the ultimate losses imposed upon tax-payers due to alterations to the Enterprise's securities holdings. We further wish to emphasize many the consequences of this use of eminent domain. First, it will likely curtail access to the thirty-year fixed mortgage, an integral part of the American Dream. Additionally, it will harm all tax-payers that are holders of the Enterprise and Private Label Securities (PLS) through their public or private pensions, 401Ks and/or mutual funds.

The use of eminent domain to restructure residential loans is a controversial, untried, and potentially an unconstitutional use of government power.[1] The use of such government power is an extremely blunt instrument; the burden on its proprietary and the justification for its use must reside with its advocates. While some would claim that it is a last resort, there are no indications that this is true or that, in the case of performing mortgages, said borrowers should be entitled to relief. Either way, it appears that the negative consequences will always outweigh the purported benefits. Even though AMI is extremely sympathetic to the problems surrounding the

[1] Cornell Law Professor Robert C. Hockett, a key architect, spokesman for the eminent domain proposal and MRP consultant, has conceded that this plan is untried and legally unverified. "In an interview Wednesday, Hockett conceded that the eminent domain seizure of a mortgage loan has apparently not been tested explicitly in court." http://newsandinsight.thomsonreuters.com/Legal/News/2012/07_-_July/Eminent_domain,_MBS_and_the_U_S__Constitution__a_one-sided_fight_/

housing sector and borrowers for the past six years, the case has not been satisfactorily made for the use of eminent domain, particularly given all of the programs available to distressed borrowers, some of which are too new to have fully registered their full potential. Further, the research data of housing analysts and the government suggest that after a six year housing crisis, many key criteria, including home prices and relief for borrowers, are showing consistent improvement.

Remedial Efforts are Helping Borrowers; The Housing Data Indicates a Large Population Have Been Modified

Eminent domain is falsely being portrayed as a foreclosure mitigation tool and justified by current housing market conditions. As the FHFA officials well know, the federal and state governments have allocated great resources for remedial efforts to assist distressed borrowers with foreclosure prevention programs, including refinancing and modification programs.[2] U.S. Department of Housing and Urban Development Secretary Donovan recently testified before the U.S. Senate Committee on Banking, Housing, and Urban Affairs regarding the assistance borrowers have received and the benefits of federal remedial programs in effect since 2009. He essentially made the case why eminent domain is not a necessary tool for communities, as he testified:

> Today, because the Obama Administration moved to keep interest rates low and took aggressive steps to stabilize the housing market, more than 14 million homeowners have refinanced their mortgages since April 2009 . . . because we worked with lenders to develop a range of options for families struggling to hold onto their homes, more than 5.8

[2] We have no doubt that you and your staff are familiar with these programs. For the comment record, these programs include no fewer than 14 federal initiatives, including variations of the Hope for Homeowners (H4H), the FHA Short Refinance Program, Home Affordable Program (HARP), and Home Affordable Modification Program (HAMP).

million loan modifications have been started in the last three years and foreclosure notices are down 50 percent since early 2009.[3]

Earlier this year, the National Mortgage Settlement was approved. This landmark settlement provides for more than $25 billion in assistance for homeowners and important servicing reforms aimed at helping borrowers. Certainly, the pace of relief for responsible homeowners has been slower than we have hoped. However, we see progress from these current federal remedial programs, casting doubt on whether communities should even consider the use eminent domain. The improving housing market conditions furthermore do not justify eminent domain's use to restructure mortgages.

Recent industry housing analytic data confirms positive trends in the U.S. housing market. One significant factor is the decline in completed foreclosures, an indicator of improving housing market conditions for the housing market. There were 58,000 completed foreclosures in the U.S. in July 2012 down from 69,000 in July 2011 and 62,000 in June 2012. Since the financial crisis began in September 2008, it is estimated that approximately 3.8 million foreclosures have been completed across the country. Anand Nallathambi, president and CEO of CoreLogic, recently commented, "The decline in completed foreclosures is yet another positive signal that the housing market is continuing on a progressive path of stabilization and recovery."

Negative Equity in Itself is not a Justification for Eminent Domain

Another false justification for the use of eminent domain in this context is foreclosure mitigation. Many analysts will agree that negative equity is a predictor of future default. The

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[3] Statement of the Hon. Shaun Donovan, *Hearing before the Senate Committee on Banking Housing and Urban Affairs Expanding Refinancing Opportunities to Improve the Housing Market* (May 8, 2012).

actual analyst data, however, shows that on a national basis, the rate of future defaults has substantially improved and continues to diminish with each month. For example, a recent RBS report addressed the conditions in San Bernardino County. The analyst report states:

> In November 2007, half of all underwater borrowers defaulted within the following 12 months. By June 2011, even with 75% of homeowners still deeply underwater, that same rate significantly declined to 13%, and continues to improve each month. Simply put, more underwater borrowers continue to make their regular mortgage payment and remain in their homes and communities. Helping this situation is the 35% cumulative modification rate, low interest rates, and the average 6 years of successful mortgage history. Servicers appear to have the freedom to modify these PLS loans.[4]

Accordingly, the improving housing conditions in San Bernardino County and across the country illustrate that there is no justification for eminent domain in this context.

Negative equity is often cited as a singular justification for the seizure of mortgages using eminent domain. Although in many circumstances, negative home equity is the result of actions by the borrower to monetize the value of their home to finance some other purchase *i.e.,* a subsequent cash-out refinancing.

> *Example.* The following table illustrates the case in San Bernardino County, CA. Of the performing negative equity borrowers, 54% are cash-out refinanced and 17% are homes that were purchased with no downpayment.[5]

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[4] Scott Gimpel *et al., "Seizing Mortgages by Eminent Domain: Let's Look at the Data,"* Royal Bank of Scotland (RBS) (July 26, 2012) at 2.

[5] *Data on file with AMI's offices.*

Table I: PLS mortgages that have >110% LTV, Owner-occupied and At Least 6 Months "Clean Pay."

	inv_bal	Loan Cnt	LoanSize	GWAC	WALA	FICO	IO	IO Term	Remaining IO	Owner Occ	Full Doc
US	69,441,340,122	314,222	220,995	4.9	73	682	40	102	28	100	50
CA	87,330,135,825	214,319	407,477	4.3	72	709	54	100	37	100	33
Fontana/Ontario	1,072,261,645	3,164	338,894	3.7	71	683	43	94	26	100	34

	Purchase	Cashout	Multilien	HPA CS	LTV Orig	LTV MTM	CLTV Orig	CLTV MTM	APL	RPL
US	44	43	42	-43	81	146	86	159	62	38
CA	43	42	52	-44	78	141	83	155	62	38
Fontana/Ontario	34	54	43	-50	78	154	82	167	39	61

Take aways: Current-to-default rates are coming down. This trend is consistent with California in general. Modified and current above state level – 44.6% for Ontario and Fontana 35.4% for county. Life time perfect pay almost a third for the county but still 22.5% for Ontario and Fontana.

The use of eminent domain in this context is unjust and would exacerbate problems in already distressed communities. Its use would signal that homeowners could deplete or reconstitute equity in their homes in anticipation of a government remedy, at the detriment of their neighbors who played by the rules and tax-payers at-large in many cases.

The Use of Eminent Domain Harms Home Prices and Communities

Proponents of the use of eminent domain claim that refinancing underwater mortgages will spur homebuilding and create good "blue-collar" construction jobs. In contrast, we wish to explain that eminent domain will have the opposite effect on communities.

The issue hinges on simple economics, namely the effects for the supply and demand for housing. If a community adds more inventory via new home construction, then it is likely that existing home properties will decrease in value. The market will not support the investment of private capital for housing construction or the creation of construction jobs in an environment of decreasing home prices. Eminent domain undermines the economic incentives for housing, jobs, and economic development on many fronts. Meanwhile, the often cited legal justification for using eminent domain to seize mortgages from one private investor for the benefit of another private investor is the U.S. Supreme Court decision, *Kelo v. City of New London*, 545 U.S. 469 (2005). The *Kelo* case is distinguishable, *inter alia*, because the court predicated the seizure of private physical property for the benefit of another private party on the requirement that the property be used for economic development. The use of eminent domain of mortgages undermines the economic development in communities; this further argues against its usage.

Ultimately, the seizure by eminent domain and refinancing of PLS mortgages, including those which are underwater and/or performing, will only have a small impact on communities (*e.g.,* San Bernardino County, California and the City of Chicago, Illinois) and the situation nationally, while being far outweighed by the negative consequences of increasing the cost of lending and availability credit across the country. The enclosed analyst reports provide detailed data justifying this conclusion, based on a multi-faceted analysis such as interest rates, modifications, and payment history.[6]

Conclusion

AMI is comprised of large fixed income institutional investors who support the reemergence of a healthy and functioning housing market. We do not dismiss the depth and extent of the recent housing crisis or its impact on communities and individual borrowers. We are advocates for and committed to long term, effective solutions to the housing crisis. On

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[6] Gimpel *et al.*, *"Seizing Mortgages by Eminent Domain: Let's Look at the Data,"* Royal Bank of Scotland (RBS) (July 26, 2012) at page 2.

behalf of our membership, let me express again our thanks for giving us this opportunity to comment on the use of eminent domain to restructure mortgages and express our strong opposition. Should you or any member of your Staff have any questions with regard to our views, please contact me at 202-327-8100.

Sincerely,

Chris Katopis
Executive Director
Association of Mortgage Investors

Enc.

RBS

Seizing Mortgages by Eminent Domain: Let's look at the data!

Eminent domain has been proposed to "stabilize local housing markets and economies by keeping as many homeowners with underwater mortgages in their homes as possible." Historical mortgage performance confirms that significantly underwater loans default at a higher rate. It also confirms that the collapse in home values created a dramatic rise in homeowners to default and lose their homes. Even with homeowners still deeply underwater, the data clearly shows that the existing system has dramatically slowed the rate of which these homeowners default. Something is working, and the best approach for government officials might be to simply let the system continue to mend itself.

Highlights

- Mortgage Resolution Partners (MRP) has proposed to some California municipalities the use of eminent domain to seize and restructure mortgages. MRP claims this will "stabilize local housing markets and economies by keeping as many homeowners with underwater mortgages in their homes as possible."
- MRP's initial proposal targets performing yet deeply underwater [(1)] mortgages that reside in Private Label Securitizations (PLS).
- Our approach is not to debate the use of eminent domain, but rather to analyze the actual historical performance of loans that reside in PLS.
- We will use the CoreLogic® LoanPerformance Securities Database, the industry's largest and most comprehensive database which includes loan-level data on more than 90% of the PLS market. We will also use CoreLogic® National HPI data, which incorporates more than 30 years of repeat sales transactions, with more than 45 million observations.
- Our case study (and all graphs to follow) is limited to owner occupied, first liens in PLS located in San Bernardino County California. Our projected number of homeowners that will default analysis (Figure 17), also separately includes the cities of Ontario & Fontana, the struggling cities of Vallejo, Stockton, and Sacramento, and all of California.
- We project out only 1 year using the latest actual historical performance data. Going out any further changes the theme of this paper from looking at the actual data to using assumptions and mathematic models.
- San Bernardino was especially impacted by the national housing crisis, with home values plummeting 54% from peak (July 2006) to trough (June 2009). By April 2009, over 85% of San Bernardino homeowners in PLS were deeply underwater,
- Historical data confirms that underwater loans default at a substantially higher rate than loans with equity, and that the collapse in home values created a dramatic and unprecedented rise of homeowners to default and lose their homes. In 2008, an average

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41% of current underwater borrowers in San Bernardino defaulted in a 12 month period. By contrast, 13% of homeowners with equity defaulted during that same period.

- We agree that negative equity is a great predictor of future default; however, the actual data also shows that the rate of future default has substantially improved and continues to get better each month. In November 2007, half of all underwater borrowers defaulted [(2)] within the following 12 months. By June 2011, even with 75% of homeowners still deeply underwater, that same rate significantly declined to 13%, and continues to improve each month.
- Simply put, more underwater borrowers continue to make their regular mortgage payment and remain in their homes and communities. Helping this situation is the 35% cumulative modification [(3)] rate, low interest rates, and the average 6 years of successful mortgage history. Servicers appear to have the freedom to modify these PLS loans.
- At the peak of the crisis, over 12,000 San Bernardino homeowners in PLS defaulted over a 12 month period (April 2008 – April 2009). The latest observed data shows that number dropping 79% to approximately 2,500 homeowners.
- Of the 47,317 San Bernardino 1st lien, owner occupied residential loans currently in PLS, 17,533 are underwater and current; with 35% previously modified, 32% never missed a payment [(4)], 53% never missed a payment in the past 2 years, and 74% never missed a payment in the past 1 year. Both 12-month and 24-month perfect pay rates have improved and continue to improve.
- Servicers of PLS are increasingly using alternatives to foreclosure in order to liquidate the defaulted pipeline. In San Bernardino today, only 56% of liquidations resulted from REO sales, down from 88% four years ago. The data shows that short sales are being offered more than ever to San Bernardino homeowners. The trusts have an economic incentive to employ these alternatives, as the average severity for short sales are approximately 13 points lower than REO sales (66.5% vs. 79.5%).
- If the MRP proposal targets deeply underwater borrowers that are current for the past 12 months in PLS, then approximately 12,997 San Bernardino homeowners are eligible. Actual historical roll rates suggest 1,463 (11.26%) will default over the next year (Figure 17). For the cities of Ontario and Fontana, approximately 2,360 homeowners are eligible of which an estimated 274 (11.62%) will default over the next year.
- By observing actual historical data, current trends, and the potential number of homeowners now expected to default, local government officials need to decide whether invoking a controversial approach such as eminent domain is actually necessary. We leave it to the reader to determine what the actual data suggests.

Definitions:

(1) Underwater (deeply underwater): aka negative equity. Current combined LTV >= 115% using combined LTV at origination with the original valuation adjusted using CoreLogic® HPI.

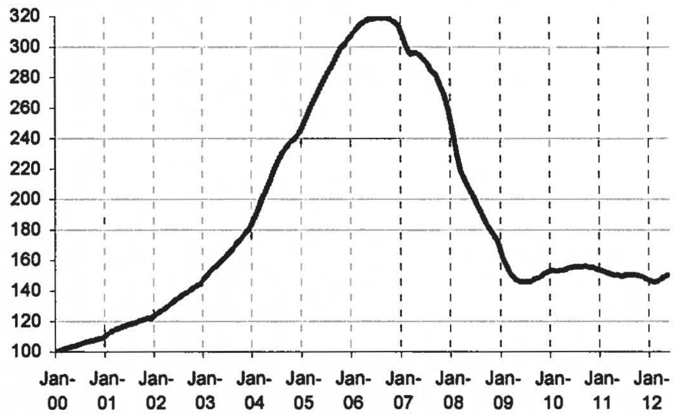
(2) Defaulted loan: delinquency status: 90+ days delinquent (MBA methodology), PFC (in process of foreclosure), REO or liquidated. The term "to default" refers to going from being current to one of these defaulted stages.

(3) Modified: only includes significant modifications: principal forgiveness/forbearance with reductions of at least 15% or coupon modifications that result in a reduction of 300 basis points.

(4) Never missed a payment: aka lifetime perfect pay. As of each month end, the loan has always been current (MBA methodology).

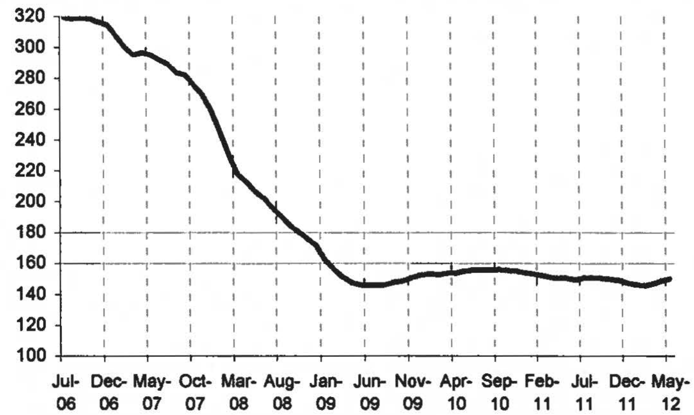
Case Study: San Bernardino County California

Figure 1: CoreLogic HPI - San Bernardino County, CA Jan 2000 - May 2012



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

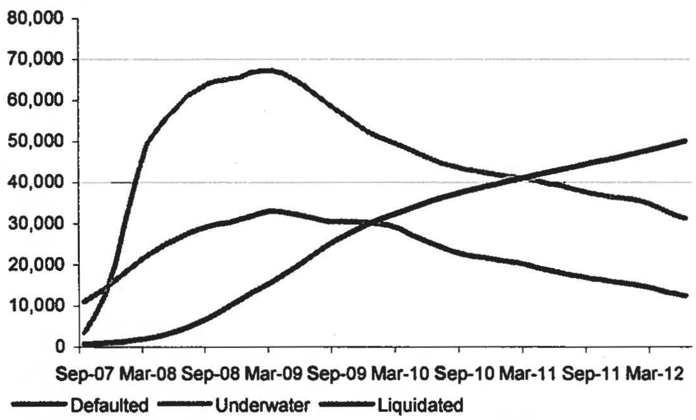
Figure 2: CoreLogic HPI since Peak (July 2006) - San Bernardino County, CA



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

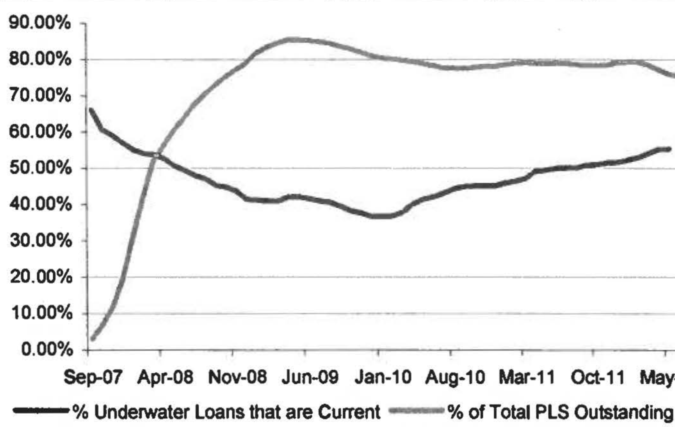
- San Bernardino experienced a 219% increase in home prices from January 2000 to its peak in July 2006.
- Home prices plummeted 54% from peak (July 2006) to trough (June 2009).
- Since June 2009, home prices have generally held steady, yet depressed.
- Home prices are now back to levels last seen in February 2003.

Figure 3: Status of Private Label Securitizations: Sept 2007 - present



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

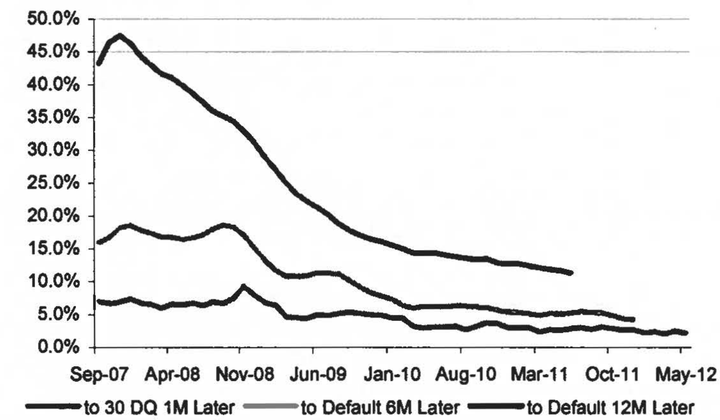
Figure 4: Underwater Loans



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

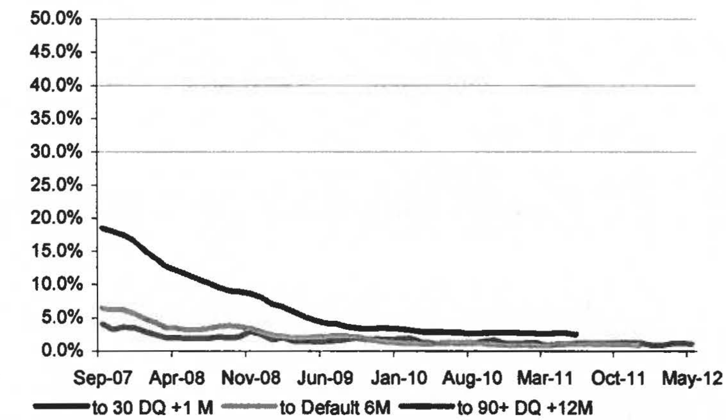
- Defaulted loans peaked at 33,136 in March 2009.
- Today there are 12,330 defaulted loans, a 63% drop from the peak.
- The percentage of underwater loans has remained between 75% and 80% for the past 2 ½ years; however, the percentage that are current has been steadily increasing.

Figure 5: Roll Rates 12M Perfect Pay & Underwater



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

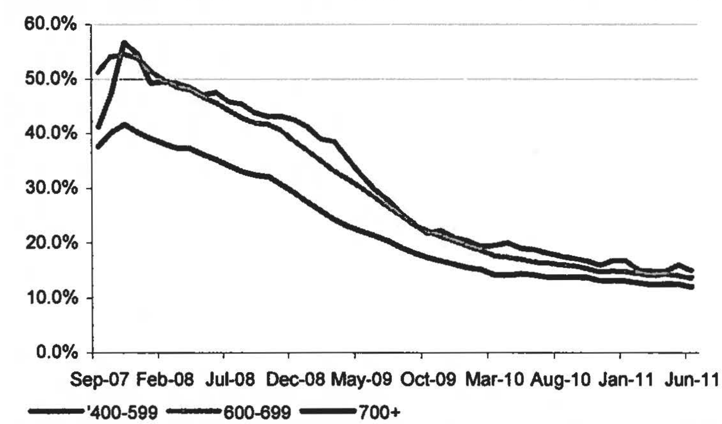
Figure 6: Roll Rates 12M Perfect Pay & with Equity



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

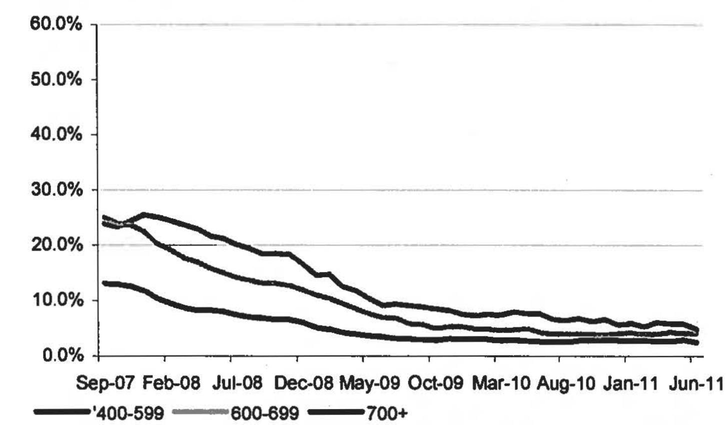
- Roll rates used in this analysis calculate the percentage of loans moving from current to a specified delinquency state over a fixed period of time.
- Roll rates for underwater loans are substantially higher than for those loans with equity.
- Since September 2007, roll rates across the board have dramatically improved.
- Improvements in 1-month and 6-month roll rates suggest that the 12-month roll rate will continue to improve.

Figure 7: Roll Rates by Original FICO: 12M Perfect Pay & Underwater



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

Figure 8: Roll Rates by Original FICO: 12M Perfect Pay & with Equity



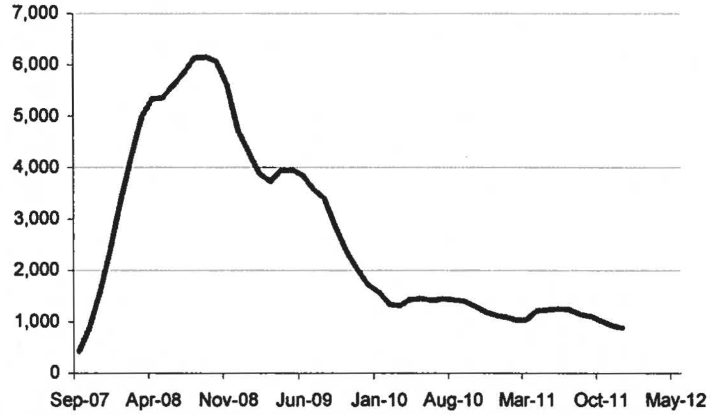
Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

- Even holding original FICO constant, roll rates for deeply underwater loans are substantially worse than for those loans with equity.
- Negative equity is a great predictor of future default.

Figure 9: Current & Underwater: # of Loans moving from Current to 30 days DQ -1 Month Later

Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

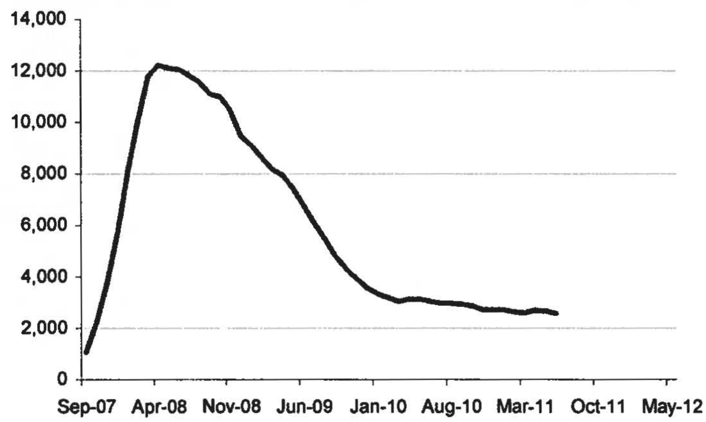
Figure 10: Current & Underwater: # of Loans moving from Current to Default - 6 Months Later



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

- The actual number of newly defaulted loans has dramatically decreased, and today the number is still decreasing but at a slower rate.

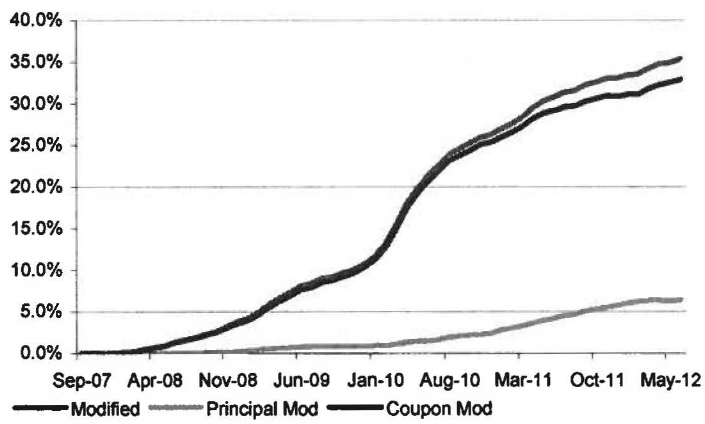
Figure 11: Current & Underwater: # of Loans moving from Current to Default - 12 Months Later



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

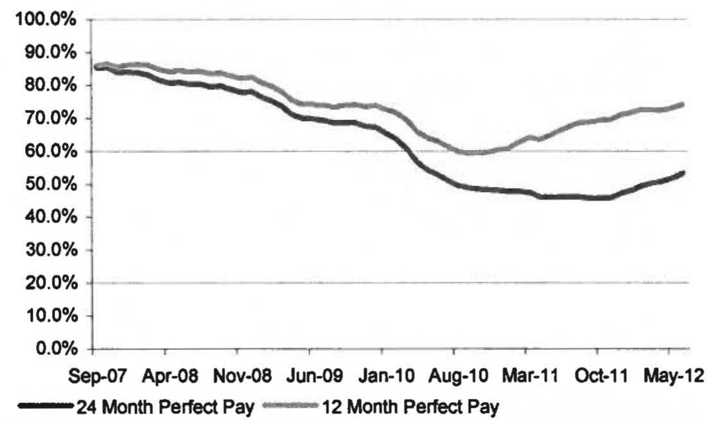
- With less loans moving into default over the 1-month and 6-month periods, fewer loans will eventually default over the 12-month period. The number of loans defaulting continues to drop.

Figure 12: Current & Underwater: % Cumulative Modified



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

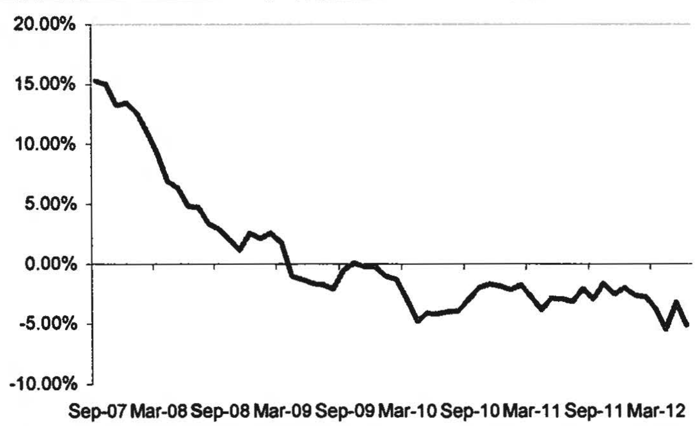
Figure 13: Current & Underwater: Perfect Pay



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

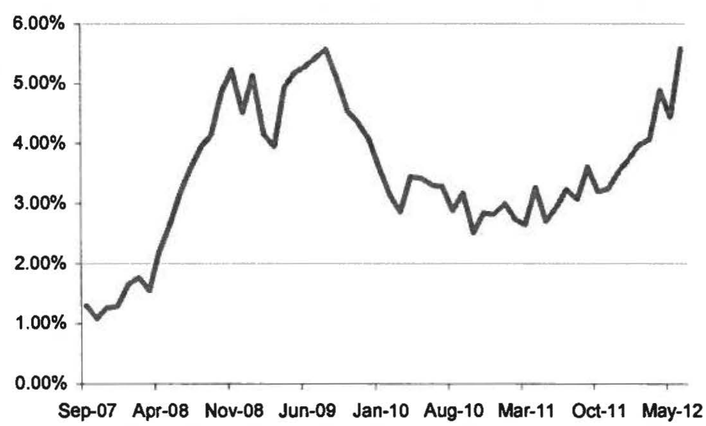
- 35.4% of current and underwater mortgages have some form of loan modification, and modifications continue to be made.
- Servicers appear to have the freedom to modify loans.
- 6.4% of current and underwater mortgages have a principal forgiveness/forbearance modification in excess of 15% of the loan balance.
- 32.9% of current and underwater loans have a coupon reduction of at least 300 basis points.
- Current loans continue to improve with 12- and 24-month perfect pay rates steadily increasing. This increase suggests that modifications are working.

Figure 14: Defaulted Loans: % Increase/Decrease each month



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price index as of May 2012, and RBS

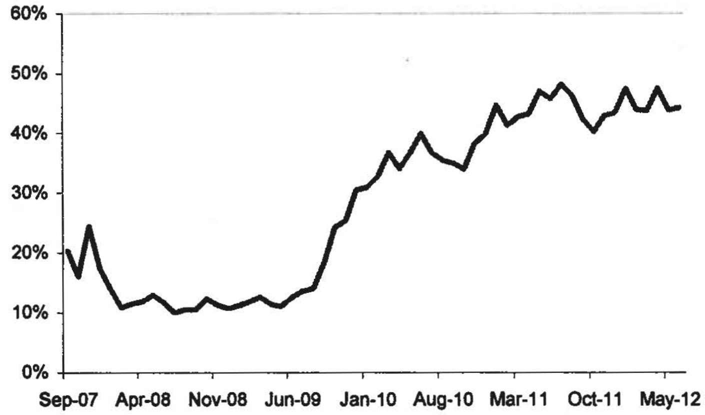
Figure 15: Defaulted Loans: % Liquidated each month



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price index as of May 2012, and RBS

- There has not been an increase in the actual number of defaulted loans since March 2009.
- The decreasing number of defaulted loans has resulted from fewer loans entering the defaulted pipeline and a pickup in the number of loans liquidating out of the pipeline.

Figure 16: % of Liquidations from Alternatives to Foreclosure (Short Sales)



Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

- The pickup in the number of liquidated loans has been accompanied by the increasing use of alternatives to foreclosure. Servicers are more willing to use short sales with distressed homeowners and are less likely to actually foreclose on the property.
- The trusts have an economic incentive to employ these alternatives, as the average severity for short sales are approximately 13 points lower than REO sales (66.5% vs. 79.5%).

Figure 17: Projected # of Homeowners that will Default over the next 12 months

PRIVATE LABELED SECURITIZATION ONLY: 1ST LIEN, OWNER OCCUPIED
from loans that are current, 12M perfect pay, & underwater
based on actual historical data, as of the June 2012 Remittance

# of Homeowners	San Bernardino County	Ontario & Fontana	Vallejo	Stockton	Sacramento	California
All PLS Outstanding	47,317	9,796	3,173	5,835	12,210	760,501
Current	30,420	6,174	1,951	3,623	8,028	543,985
Underwater	**31,247**	**6,238**	**2,807**	**4,577**	**9,541**	**363,426**
Current & Underwater	17,533	3,363	1,626	2,562	5,780	216,803
% Loans Modified - Current & Underwater	35.4%	44.6%	26.0%	31.7%	25.2%	27.0%
% Lifetime Perfect Pay - Current & Underwater	31.7%	22.5%	41.1%	37.2%	44.0%	41.4%
Current & Underwater & 12M Perfect Pay	**12,997**	**2,360**	**1,260**	**1,996**	**4,645**	**171,322**
FOR CURRENT & UNDERWATER & 12M PERFECT PAY ONLY						
previously Modified: Principal Forgiveness/Forbearance	637	143	83	142	186	5,155
previously Modified: Coupon Reduction	3,240	780	184	385	803	32,791
Lifetime Perfect Pay	5,424	730	660	933	2,506	88,292
not Lifetime Perfect Pay	3,696	707	333	536	1,150	45,084
	12,997	2,360	1,260	1,996	4,645	171,322
Current to Default Roll Rate - 12 Months Later (actual)						
June 2008 - June 2009	38.78%	43.57%	32.29%	39.04%	31.08%	35.18%
June 2009 - June 2010	21.24%	25.76%	21.64%	23.71%	20.04%	19.40%
June 2010 - June 2011	14.02%	15.35%	15.45%	12.95%	13.09%	13.72%
June 2011 - June 2012	11.26%	11.62%	12.41%	14.22%	11.38%	10.93%
Projected # of Homeowners that will Default over the next 12 months using latest observed roll rate	**1,463**	**274**	**156**	**284**	**529**	**18,725**
ALL LOANS - UNDERWATER & WITH EQUITY						
Number of Loans in Default (actual historical)						
June 2009	31,821	7,143	2,228	5,065	7,666	337,471
June 2010	25,150	5,680	1,801	3,654	6,290	299,055
June 2011	18,034	3,914	1,411	2,541	4,836	233,048
June 2012	12,330	2,618	978	1,696	3,258	164,704
Percent Change in Defaulted Loan Inventory since 2009	**-61%**	**-63%**	**-56%**	**-67%**	**-58%**	**-51%**

Notes:

Underwater=current combined LTV >= 115% using combined LTV at origination with the original valuation adjusted using CoreLogic HPI

Defaulted loan=delinquency status: 90+ days delinquent, in process of foreclosure, REO or Liquidated (MBA methodology).

Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

Seizing Mortgages by Eminent Domain: Part II – Here's the data, now you know.

Eminent domain has been proposed to "stabilize local housing markets and economies by keeping as many homeowners with underwater mortgages in their homes as possible." The program will initially target loans in private label securitizations (PLS). In Part II of our Eminent Domain report, we examine six communities and discover how many loans in PLS over time would qualify for the proposed program, and then using actual historical data, we can quantify how many default one year later. By revealing the actual breadth of affected homeowners, as well as ongoing positive trends, local officials can decide whether invoking eminent domain is necessary.

Terminology

- Current combined loan to value ratio: The current outstanding unpaid principal balance of all liens (senior & junior) / estimated current value of home. The appraisal at loan origination is adjusted using the CoreLogic® Home Price Index (HPI). Generally, the home price index used is for an individual zip code. If one is not available, then the county or CBSA home price index is used instead.
- Underwater: Current combined loan to value ratio >= 100%.
- Deeply Underwater: Current combined loan to value ratio >= 115%.
- Default: Loan moving into any one of the following delinquency status: 90+ days delinquent (MBA methodology), PFC (in process of foreclosure), REO, or Liquidated. The term "to default" refers to going from being current to one of these stages.
- Never missed a payment: aka lifetime perfect pay. As of each month end, the loan has always been current (MBA methodology).
- Perfect Pay Last 12 Months: Borrower made every payment on time during the previous 12 months.
- Qualified for the MRP Program: A loan in a private label securitization trust (PLS) that is deeply underwater, current, and has at most one 30 day delinquency in the previous 12 months. The exact program may be different, but this is probably a conservative estimate.
- Not Qualified for the MRP Program: A loan in a PLS that is deeply underwater and either 1-2 months delinquent or current with more than one 30 day delinquency in the previous 12 months. Loans not deeply underwater are excluded from the analysis, since we've previously shown that although these loans do default, it is at a significantly lower rate.

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- Liquidated loan: A loan that has involuntarily prepaid and incurred a loss to the trust. REO Liquidations, Short Sale (Pre-Foreclosure Sale), Deed-in-Lieu.

Background

- Mortgage Resolution Partners (MRP) has proposed to some municipalities the use of eminent domain to seize and restructure mortgages. MRP claims this will "stabilize local housing markets and economies by keeping as many homeowners with underwater mortgages in their homes as possible."
- MRP's initial proposal targets performing yet deeply underwater mortgages that reside in PLS.
- Our approach is not to debate the use of eminent domain, but rather to analyze the actual historical performance of loans that reside in PLS. No rhetoric – just data.

Data

- We use the CoreLogic® LoanPerformance Securities Database, the industry's largest and most comprehensive database which includes loan-level data on more than 90% of the PLS market. CoreLogic collects securities data from over 100 independent sources, including master servicers, underwriters, trustees, mortgage insurers, and rating agencies. We have complete month-end history of every loan that CoreLogic tracks.
- We use CoreLogic® National Home Price Index (HPI) data, which incorporates more than 30 years of repeat sales transactions, with more than 70 million transactions, and includes all sales regardless of financing.
- National zip code databases map zip codes to city, county, and state.

Methodology

- Neither projections nor models are used; only the actual payment history of every loan.
- The case studies are limited to owner occupied, first liens in PLS. If the junior lien is known to the senior lien holder, then it is included in the calculation of the combined loan to value ratio. We assume that the eminent domain proposal is not targeted to second homes or investor properties. Limiting the analysis to first liens avoids double counting homeowners that have multiple liens.
- The analysis covers San Bernardino County CA, Suffolk County NY, Chicago IL, and Berkeley CA as these communities have been identified as considering the eminent domain proposal. We also analyze Clark County NV and the entire state of California.
- Four 12-month periods are studied: June 2008 - June 2009, June 2009 - June 2010, June 2010 - June 2011, and June 2011 - June 2012, which should reveal any trends occurring. A 12-month period provides ample time for the borrower to default and ample time for the servicer to react. The loan can still default in month 13, but using a fixed time frame allows us to make fair observations. Using a 24-month period would provide more time, however it will mask any recent trends from being observed.

- For each region, the number of PLS loans outstanding at the beginning of each period is determined, as well as the percentage current and underwater. We count the number of loans that qualify for MRP's proposed program, as well as the number of loans that do not qualify due to troubled pay histories or one to two missed payments.

- There are eight mutually exclusive stages each loan can end up in after 12 months: voluntary payoff, current, 30 days delinquent, 60 days delinquent, 90+ days delinquent, process of foreclosure, REO, or liquidated. The last four categories are considered 'in default'. Delinquency is calculated using the standard MBA methodology.

How to Use the Analysis

- Four pie charts, one for each historical 12-month period, highlight the changing transition rates of loans that qualified for the MRP program. Each slice represents a different delinquency status that the loans move into 12 months later. The more light green (or more Pac-Man-like) the charts become, the greater percentage of loans that remain current 12 months later, which is a positive situation.

- Tables supplement our data visualization by providing actual numbers and percentages.
  - We know the actual number of PLS outstanding at the beginning of each period, which loans are underwater, deeply underwater, and current, along with the entire payment history of every loan.
  - Based on those numbers, we categorize the loans two ways: 1) loans that qualify for the program and 2) loans that do not qualify. The table describes the criteria used.
  - Then for each category, we look 12 months forward, and discover exactly which loans defaulted and which loans did not. Highlighted regions in the tables reveal the actual number and percentage of loans that defaulted. Since our latest time frame is June 2011 – June 2012, we can use the actual data 12 months forward. No models, no algorithms, no guessing; simply counting and categorizing loans.

Observations

- Default rates for these deeply underwater borrowers have decreased over time in every region studied. For current and deeply underwater loans, the pie charts make it visually apparent how the percentage of current loans after 12 months substantially increased over time, while the percentage of defaulted loans after 12 months substantially decreased. Default rates between 2011 and 2012 are significantly lower than they are between 2008 and 2009.

- Decreasing default rates are a result of more homeowners paying their mortgage on time. The tables include perfect pay statistics, that show how many loans are current after 12 months and actually made every one of the 12 payments on time. The data reveals that the percentage of these perfect pay loans is also increasing substantially over time in every region studied. Perfect payment history suggests a sustainable loan.

- Even with continued depressed home prices (2008 - 2012), fewer families are now defaulting and therefore fewer families are on their way to foreclosure.

- Falling home prices in Chicago are creating more deeply underwater homeowners and therefore increasing the number of loans that qualify for the program. The good news is that even with home prices further declining, default rates in Chicago are also declining.

- Default rates are higher for loans that do not qualify for the program (current loans with troubled pay histories or loans that are one or two payments delinquent) versus loans that do qualify. Higher default rates generate a higher percentage of defaulted loans.

- Default no longer dooms the homeowner to foreclosure. Our previous Eminent Domain report showed increasing use of loan modifications, decreasing re-default rates of those modifications, and a rising use of alternatives to foreclosure by servicers. Please refer to *Seizing Mortgages by Eminent Domain: Let's look at the data*, published on July 25, 2012.

- Berkeley California, which includes zip codes 94701-94705, 94707-94710, 94712, and 94720 lacks sufficient loans in PLS to make the analysis statistically significant. Trends are still similar.

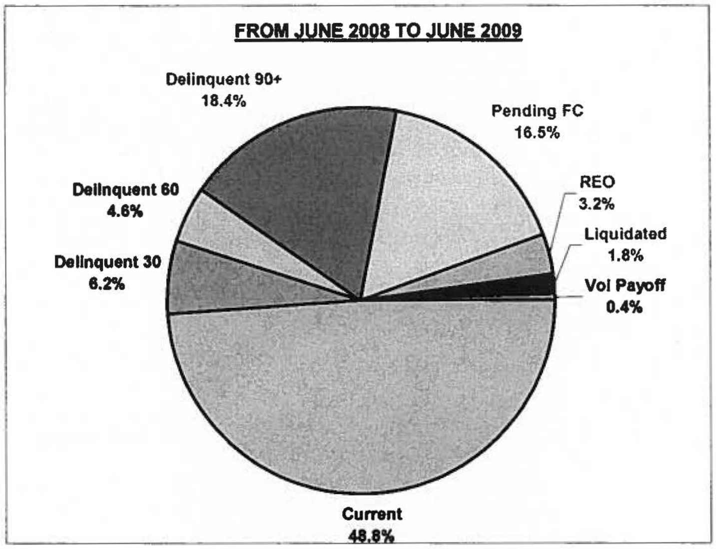
Non-Conclusion

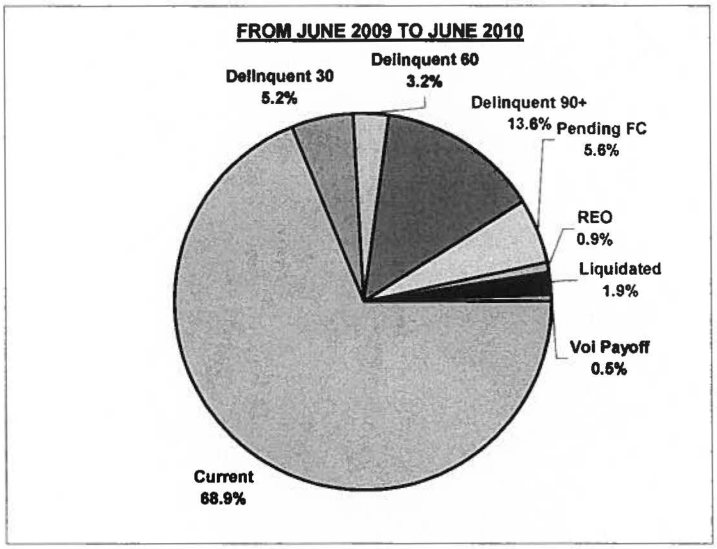
- Let the data speak for itself. Local government officials should decide whether these numbers and trends necessitate invoking eminent domain in their communities.

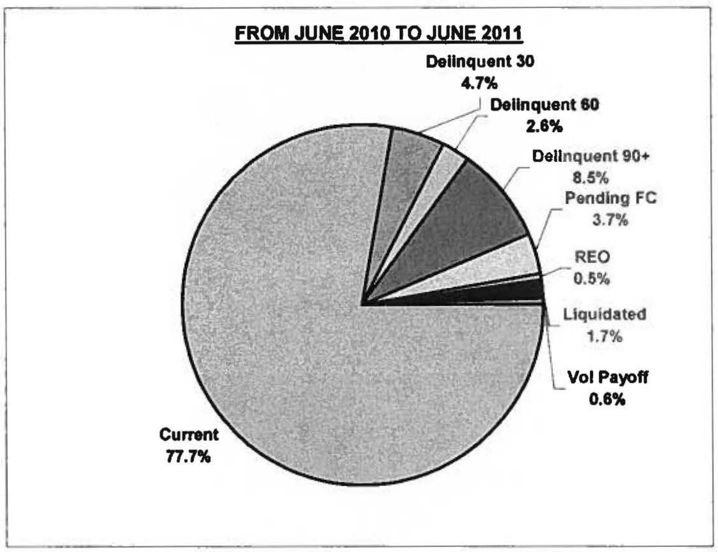
SAN BERNARDINO COUNTY CALIFORNIA

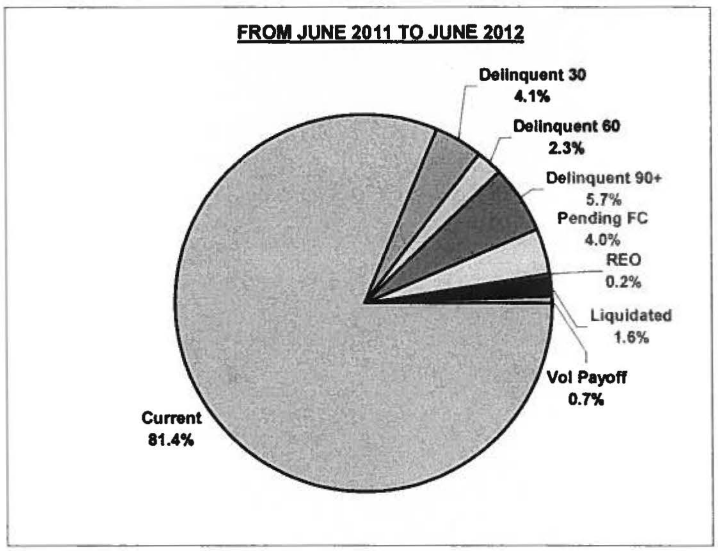
12 MONTHS LATER: WHAT HAPPENED TO THE LOANS THAT WOULD HAVE QUALIFIED FOR THE MRP PROPOSED PROGRAM?

LOANS THAT QUALIFY FOR MRP's PROPOSED PROGRAM: Deeply Underwater, current and no more than 1 missed payment during the previous 12 months
Private Label Securitizations: 1st Lien, Owner Occupied









Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

SAN BERNARDINO COUNTY CALIFORNIA

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**97,683**	**79,216**	**63,637**	**55,193**	**47,317**
Current (%)	61.6%	49.3%	51.3%	58.0%	64.3%
Underwater (%)	74.4%	86.7%	80.8%	80.3%	76.4%
Deeply Underwater (%)	59.8%	80.3%	71.8%	71.3%	66.0%
Deeply Underwater and Current (%)	29.6%	33.4%	30.3%	35.7%	37.1%
Deeply Underwater and Current (#)	28,866	26,452	19,269	19,680	17,533
Deeply Underwater and Current and Perfect Pay Last 12M (#)	24,277	19,619	12,142	13,025	12,997

QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**26,301**	**21,280**	**13,271**	**14,378**	**14,093**

12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?				
Number of loans that are Current	12,841	14,664	10,311	11,704
% of loans that are Current	48.8%	68.9%	77.7%	81.4%
Number of loans that are Current & Never Missed a payment	10,083	12,219	9,034	10,338
% of loans that are Current & Never Missed a payment	38.3%	57.4%	68.1%	71.9%
Number of loans that are 1 or 2 payments behind, but not Defaulted	2,947	1,894	1,049	1,011
% of loans that are 1 or 2 payments behind, but not Defaulted	11.2%	8.9%	7.9%	7.0%
Number of Loans Defaulted	**10,513**	**4,722**	**1,911**	**1,663**
Default Rate	**40.0%**	**22.2%**	**14.4%**	**11.6%**

DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**10,029**	**12,060**	**10,171**	**9,051**	**6,574**

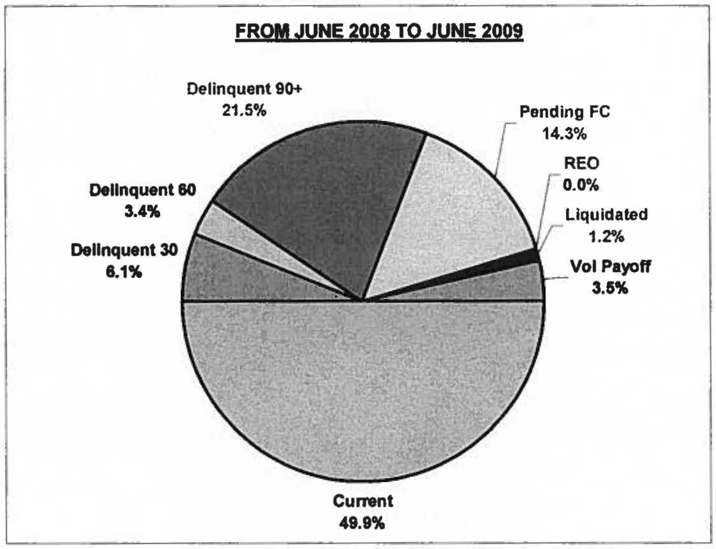
Number of Loans Defaulted	**7,300**	**6,284**	**3,045**	**2,480**
Default Rate	**72.8%**	**52.1%**	**29.9%**	**27.4%**

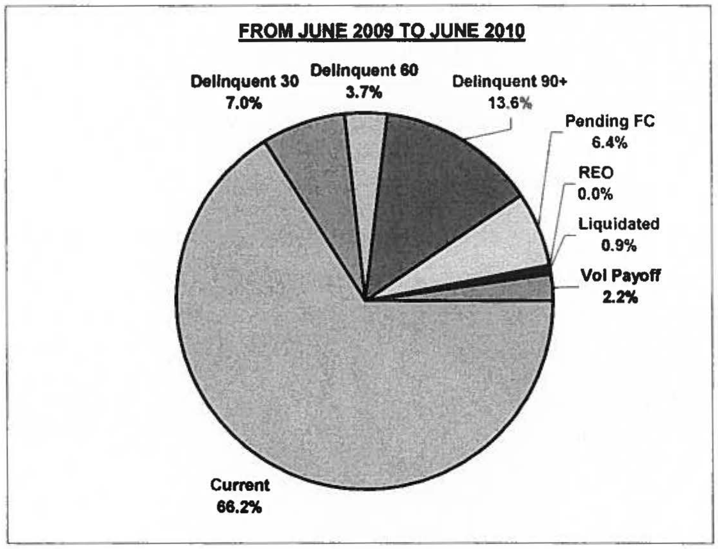
Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

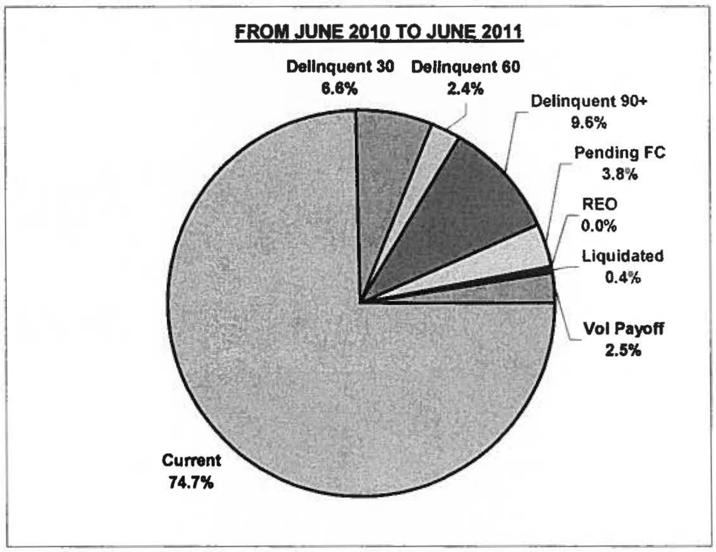
SUFFOLK COUNTY NEW YORK

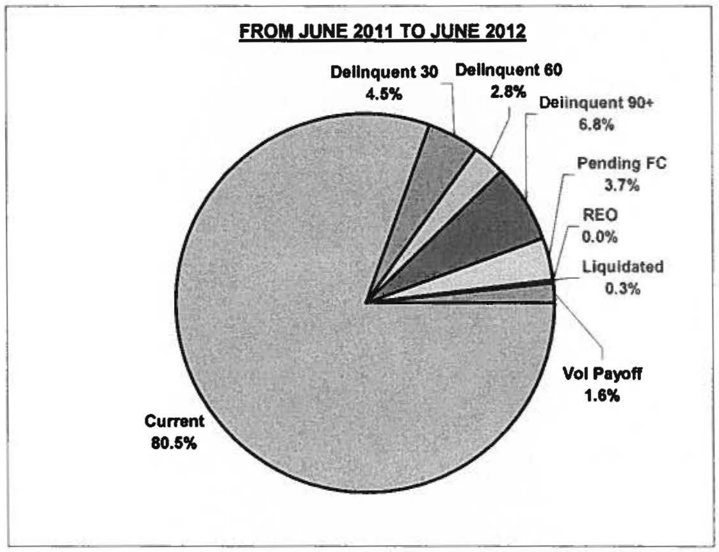
12 MONTHS LATER: WHAT HAPPENED TO THE LOANS THAT WOULD HAVE QUALIFIED FOR THE MRP PROPOSED PROGRAM?

LOANS THAT QUALIFY FOR MRP's PROPOSED PROGRAM: Deeply Underwater, current and no more than 1 missed payment during the previous 12 months
Private Label Securitizations: 1st Lien, Owner Occupied









Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

SUFFOLK COUNTY NEW YORK

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**45,468**	**41,699**	**38,325**	**35,391**	**33,258**
Current (%)	72.1%	59.0%	53.3%	53.5%	52.1%
Underwater (%)	19.7%	35.4%	38.9%	43.1%	44.1%
Deeply Underwater (%)	3.6%	17.8%	21.0%	25.7%	26.7%
Deeply Underwater and Current (%)	1.8%	5.9%	6.4%	8.9%	8.8%
Deeply Underwater and Current (#)	830	2,462	2,449	3,134	2,928
Deeply Underwater and Current and Perfect Pay Last 12M (#)	676	1,638	1,305	1,753	1,961

QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**735**	**1,806**	**1,464**	**1,995**	**2,177**

12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?				
Number of loans that are Current	367	1,195	1,093	1,605
% of loans that are Current	49.9%	66.2%	74.7%	80.5%
Number of loans that are Current & Never Missed a payment	286	961	924	1,404
% of loans that are Current & Never Missed a payment	38.9%	53.2%	63.1%	70.4%
Number of loans that are 1 or 2 payments behind, but not Defaulted	96	232	168	177
% of loans that are 1 or 2 payments behind, but not Defaulted	13.1%	12.8%	11.5%	8.9%
Number of Loans Defaulted	**272**	**379**	**203**	**213**
Default Rate	**37.0%**	**21.0%**	**13.9%**	**10.7%**

DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**303**	**1,456**	**1,681**	**1,920**	**1,426**
Number of Loans Defaulted	**204**	**770**	**579**	**583**	
Default Rate	**67.3%**	**52.9%**	**34.4%**	**30.4%**	

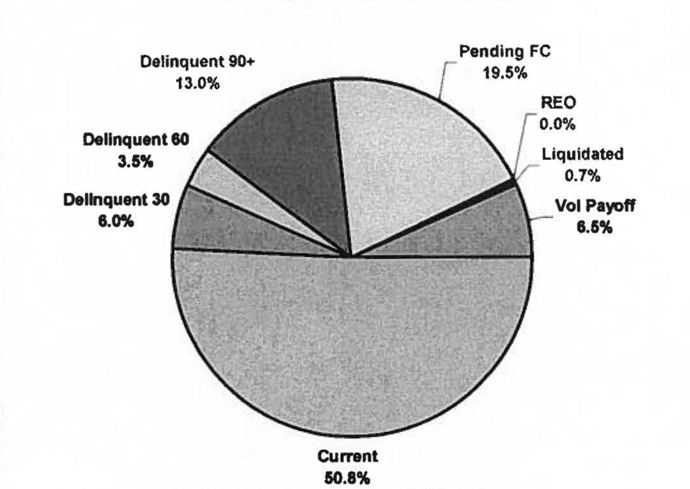
Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

CHICAGO, ILLINOIS

12 MONTHS LATER: WHAT HAPPENED TO THE LOANS THAT WOULD HAVE QUALIFIED FOR THE MRP PROPOSED PROGRAM?

LOANS THAT QUALIFY FOR MRP's PROPOSED PROGRAM: Deeply Underwater, current and no more than 1 missed payment during the previous 12 months
Private Label Securitizations: 1st Lien, Owner Occupied

FROM JUNE 2008 TO JUNE 2009



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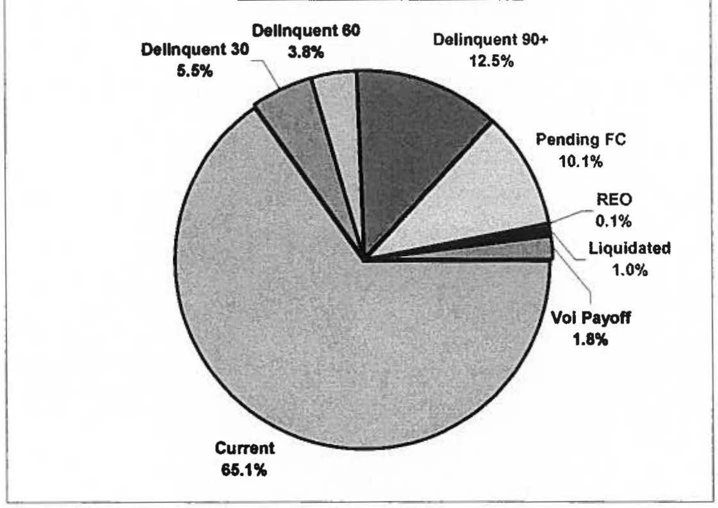

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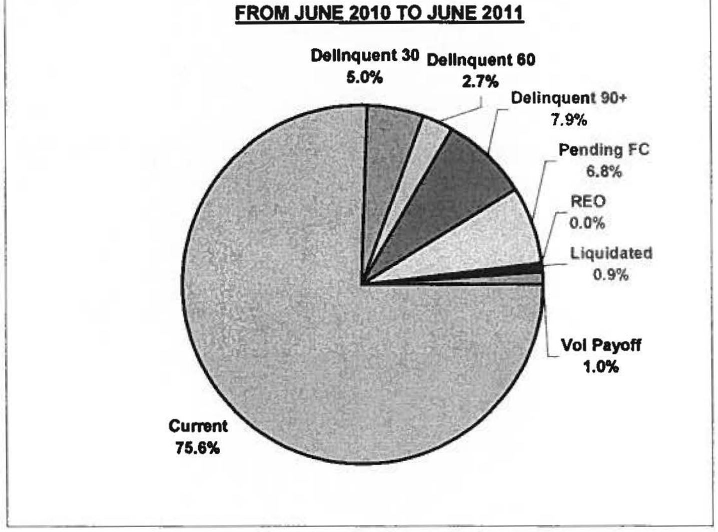

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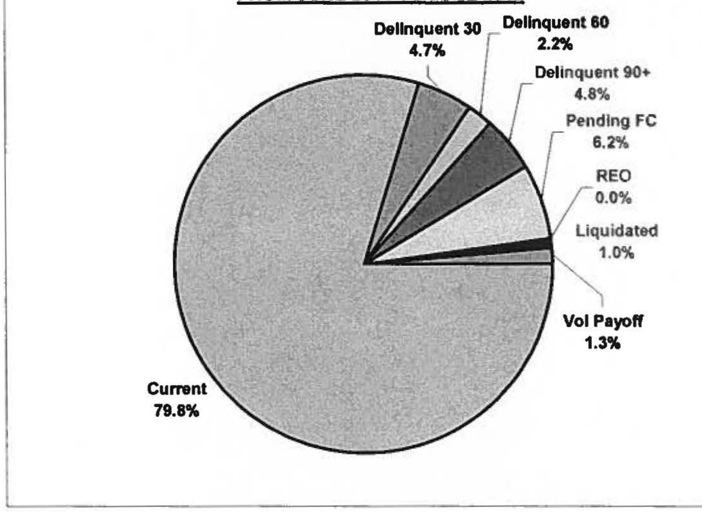


Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

CHICAGO ILLINOIS

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**56,768**	**47,947**	**40,529**	**35,936**	**32,696**
Current (%)	65.5%	54.1%	51.9%	55.6%	56.2%
Underwater (%)	31.3%	50.9%	51.3%	63.1%	65.6%
Deeply Underwater (%)	4.7%	27.3%	28.7%	43.8%	49.4%
Deeply Underwater and Current (%)	2.3%	9.8%	10.3%	18.6%	21.4%
Deeply Underwater and Current (#)	1,328	4,687	4,169	6,676	6,992
Deeply Underwater and Current and Perfect Pay Last 12M (#)	1,042	3,203	2,386	4,380	5,203

QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**1,148**	**3,569**	**2,680**	**4,892**	**5,701**

12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?				
Number of loans that are Current	583	2,325	2,026	3,903
% of loans that are Current	50.8%	65.1%	75.6%	79.8%
Number of loans that are Current & Never Missed a payment	455	1,854	1,730	3,416
% of loans that are Current & Never Missed a payment	39.6%	51.9%	64.6%	69.8%
Number of loans that are 1 or 2 payments behind, but not Defaulted	184	396	234	405
% of loans that are 1 or 2 payments behind, but not Defaulted	16.0%	11.1%	8.7%	8.3%
Number of Loans Defaulted	**381**	**848**	**420**	**584**
Default Rate	**33.2%**	**23.8%**	**15.7%**	**11.9%**

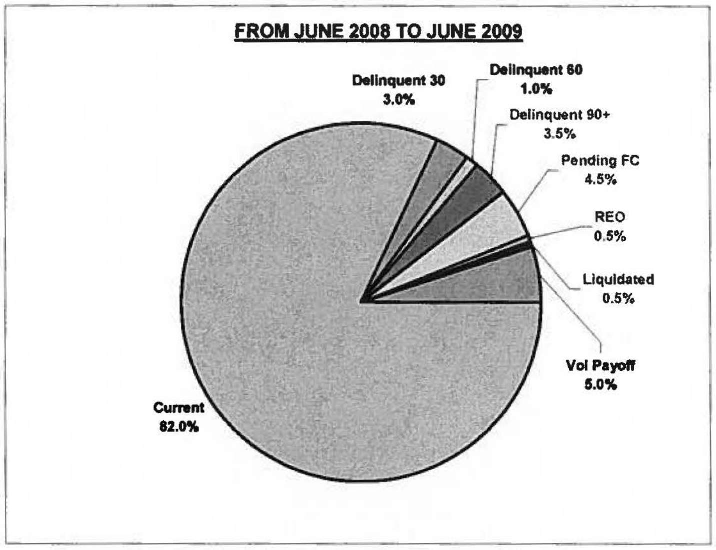
DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**513**	**2,544**	**2,604**	**3,248**	**2,649**
Number of Loans Defaulted	**333**	**1,283**	**817**	**1,024**	
Default Rate	**64.9%**	**50.4%**	**31.4%**	**31.5%**	

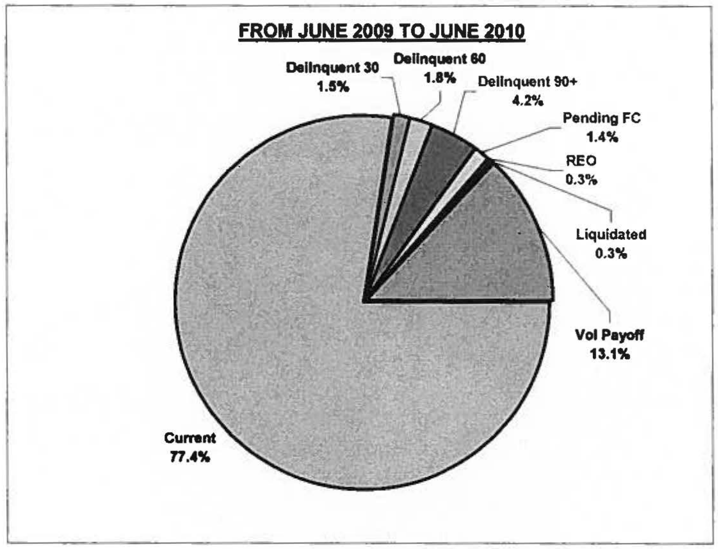
Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

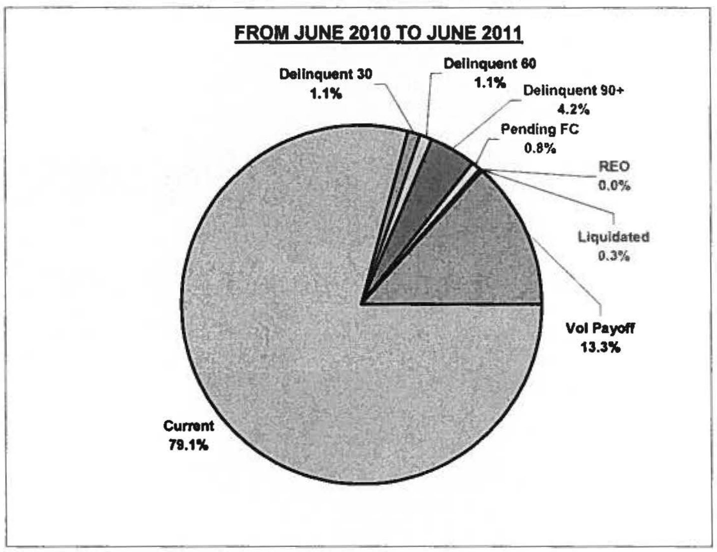
BERKELEY, CALIFORNIA

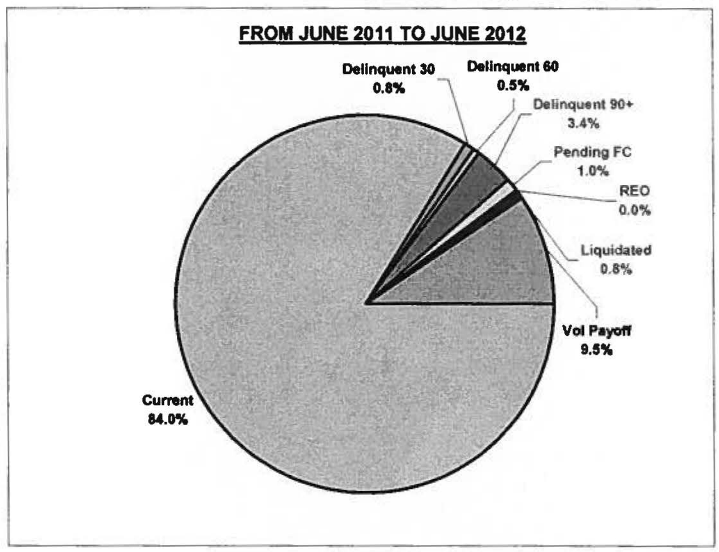
12 MONTHS LATER: WHAT HAPPENED TO THE LOANS THAT WOULD HAVE QUALIFIED FOR THE MRP PROPOSED PROGRAM?

LOANS THAT QUALIFY FOR MRP's PROPOSED PROGRAM: Deeply Underwater, current and no more than 1 missed payment during the previous 12 months
Private Label Securitizations: 1st Lien, Owner Occupied









Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

BERKELEY, CALIFORNIA

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**3,570**	**2,984**	**2,386**	**1,861**	**1,548**
Current (%)	93.9%	89.6%	86.7%	83.7%	83.4%
Underwater (%)	21.9%	45.8%	37.7%	46.3%	49.4%
Deeply Underwater (%)	7.6%	31.5%	22.1%	30.7%	33.7%
Deeply Underwater and Current (%)	5.9%	24.9%	15.9%	22.9%	25.6%
Deeply Underwater and Current (#)	212	743	379	426	396
Deeply Underwater and Current and Perfect Pay Last 12M (#)	193	684	349	375	349
QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**200**	**717**	**354**	**388**	**358**
12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?					
Number of loans that are Current	164	555	280	326	
% of loans that are Current	82.0%	77.4%	79.1%	84.0%	
Number of loans that are Current & Never Missed a payment	152	534	265	311	
% of loans that are Current & Never Missed a payment	76.0%	74.5%	74.9%	80.2%	
Number of loans that are 1 or 2 payments behind, but not Defaulted	18	118	55	42	
% of loans that are 1 or 2 payments behind, but not Defaulted	9.0%	16.5%	15.5%	10.8%	
Number of Loans Defaulted	**18**	**44**	**19**	**20**	
Default Rate	**9.0%**	**6.1%**	**5.4%**	**5.2%**	
DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**23**	**73**	**52**	**65**	**66**
Number of Loans Defaulted	**10**	**36**	**17**	**15**	
Default Rate	**43.5%**	**49.3%**	**32.7%**	**23.1%**	

Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

CALIFORNIA

12 MONTHS LATER: WHAT HAPPENED TO THE LOANS THAT WOULD HAVE QUALIFIED FOR THE MRP PROPOSED PROGRAM?

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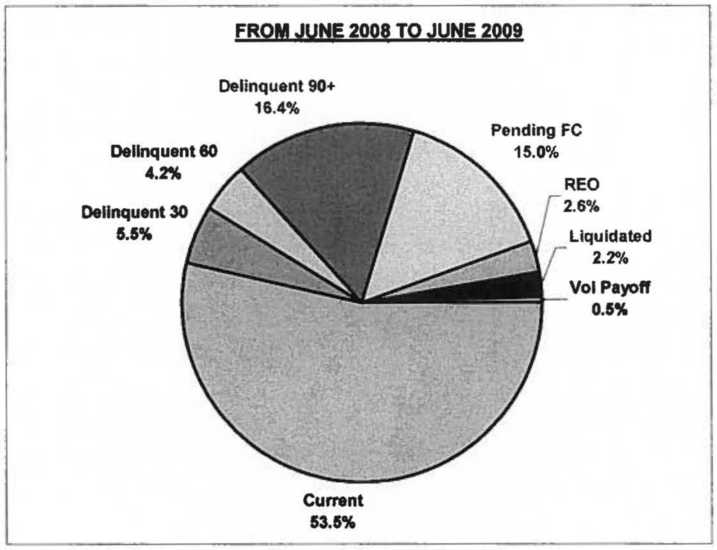
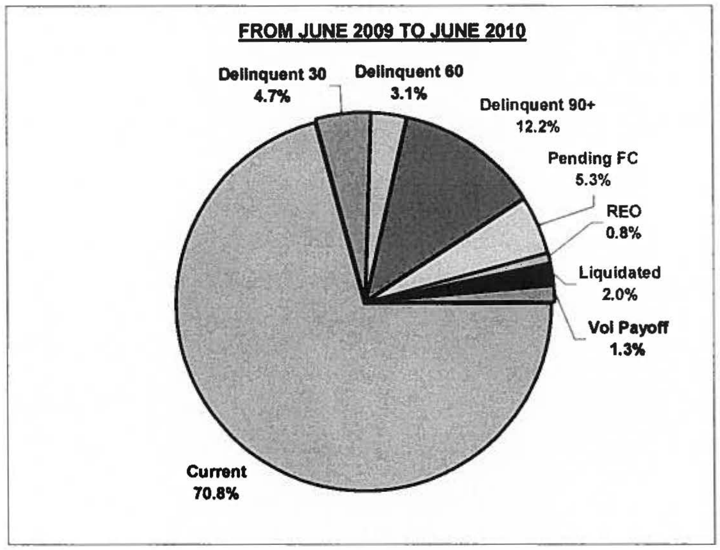
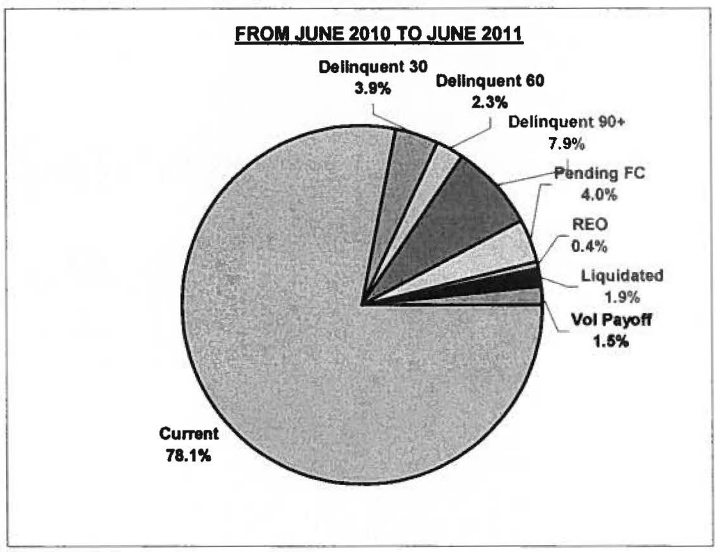
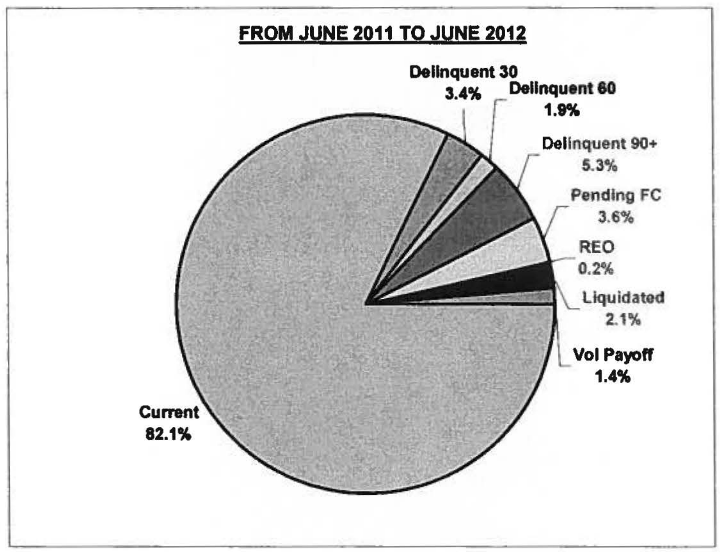








Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

CALIFORNIA

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**1,542,542**	**1,269,853**	**1,046,986**	**893,484**	**760,501**
Current (%)	75.3%	65.7%	64.3%	67.1%	71.5%
Underwater (%)	52.5%	65.6%	60.7%	64.9%	61.5%
Deeply Underwater (%)	37.1%	53.2%	46.5%	51.6%	47.8%
Deeply Underwater and Current (%)	20.0%	25.6%	21.8%	27.7%	28.5%
Deeply Underwater and Current (#)	308,336	324,751	228,222	247,850	216,803
Deeply Underwater and Current and Perfect Pay Last 12M (#)	266,723	262,370	161,439	181,942	171,322

QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**286,427**	**280,469**	**173,963**	**196,626**	**182,869**

12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?				
Number of loans that are Current	153,190	198,529	135,895	161,415
% of loans that are Current	53.5%	70.8%	78.1%	82.1%
Number of loans that are Current & Never Missed a payment	128,006	171,739	122,408	146,856
% of loans that are Current & Never Missed a payment	44.7%	61.2%	70.4%	74.7%
Number of loans that are 1 or 2 payments behind, but not Defaulted	29,398	25,471	13,486	13,115
% of loans that are 1 or 2 payments behind, but not Defaulted	10.3%	9.1%	7.8%	6.7%
Number of Loans Defaulted	**103,839**	**56,469**	**24,582**	**22,096**
Default Rate	**36.3%**	**20.1%**	**14.1%**	**11.2%**

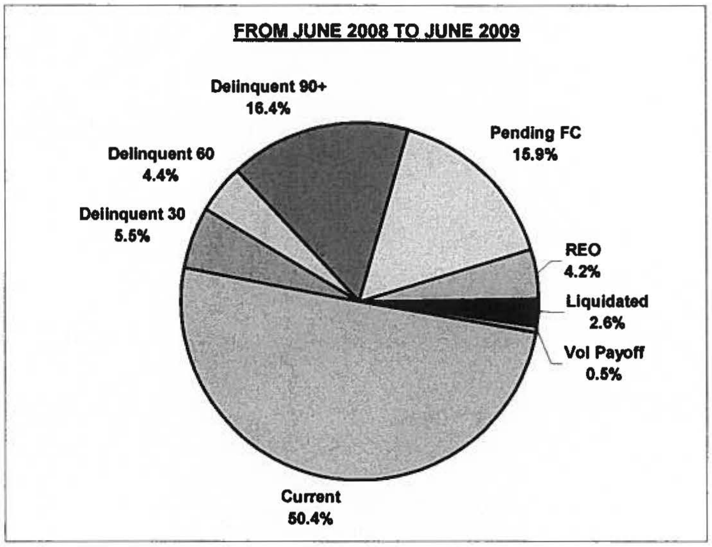
DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**84,321**	**110,118**	**95,741**	**88,245**	**63,285**
Number of Loans Defaulted	**61,646**	**58,575**	**30,887**	**24,706**	
Default Rate	**73.1%**	**53.2%**	**32.3%**	**28.0%**	

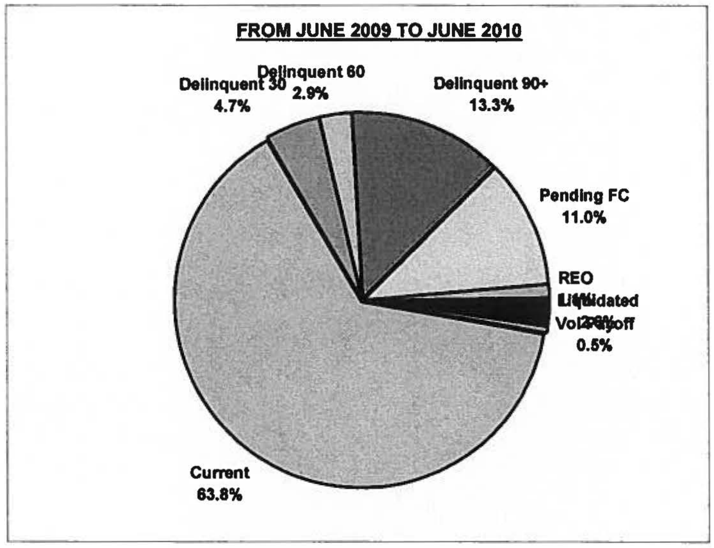
Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

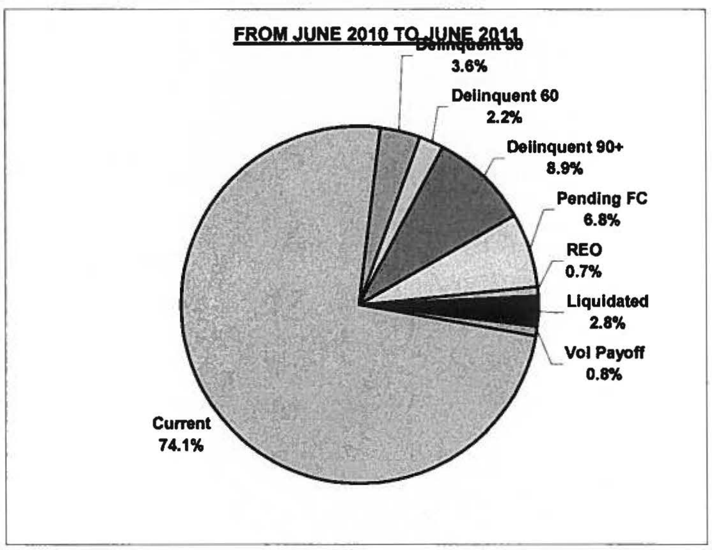
CLARK COUNTY, NEVADA

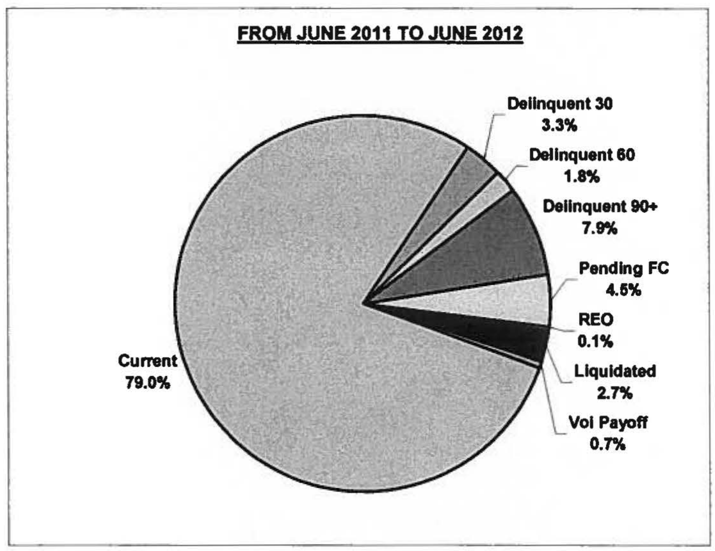
12 MONTHS LATER: WHAT HAPPENED TO THESE LOANS?

LOANS THAT QUALIFY FOR MRP's PROPOSED PROGRAM: Deeply Underwater, current and no more than 1 missed payment during the previous 12 months
Private Label Securitizations: 1st Lien, Owner Occupied









Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

CLARK COUNTY, NEVADA

	June 2008	June 2009	June 2010	June 2011	TODAY June 2012
ALL PLS LOANS OUTSTANDING	**106,533**	**86,476**	**68,304**	**57,348**	**44,611**
Current (%)	67.5%	51.1%	47.8%	50.9%	57.6%
Underwater (%)	78.7%	93.4%	92.8%	93.6%	90.6%
Deeply Underwater (%)	60.0%	89.5%	88.5%	89.9%	85.7%
Deeply Underwater and Current (%)	35.8%	42.3%	38.5%	42.5%	45.6%
Deeply Underwater and Current (#)	38,190	36,561	26,289	24,349	20,346
Deeply Underwater and Current and Perfect Pay Last 12M (#)	33,344	29,932	19,389	18,064	16,517

QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and current and no more than 1 missed payment during the previous 12 months	**35,567**	**31,918**	**20,874**	**19,446**	**17,651**

12 MONTHS LATER: WHAT HAPPENED TO THOSE LOANS THAT QUALIFY?				
Number of loans that are Current	17,911	20,370	15,478	15,356
% of loans that are Current	50.4%	63.8%	74.1%	79.0%
Number of loans that are Current & Never Missed a payment	15,178	17,585	13,977	14,057
% of loans that are Current & Never Missed a payment	42.7%	55.1%	67.0%	72.3%
Number of loans that are 1 or 2 payments behind, but not Defaulted	3,731	2,588	1,366	1,123
% of loans that are 1 or 2 payments behind, but not Defaulted	10.5%	8.1%	6.5%	5.8%
Number of Loans Defaulted	**13,925**	**8,960**	**4,030**	**2,967**
Default Rate	**39.2%**	**28.1%**	**19.3%**	**15.3%**

DOES NOT QUALIFY FOR MRP's PROPOSED PROGRAM					
Deeply Underwater and either 1) current and more than 1 missed payment during the previous 12 months or 2) now 30 or 60 days delinquent	**9,242**	**12,498**	**10,097**	**8,291**	**5,236**
Number of Loans Defaulted	**6,862**	**7,639**	**3,911**	**2,865**	
Default Rate	**74.2%**	**61.1%**	**38.7%**	**34.6%**	

Source: CoreLogic© LoanPerformance Securities Data, CoreLogic® Home Price Index as of May 2012, and RBS

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