MARCH 2016 **REPORT**

MORTGAGE MONITOR

BLACK KNIGHT®
FINANCIAL SERVICES
DATA & ANALYTICS

CONTENTS

MARCH 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. As we had reported in the First Look, March's decline in mortgage delinquencies brought the national rate below the pre-crisis average, and 30-day delinquencies were at their lowest level in well over 15 years. This spurred a closer look at the current state of non-current inventories, along with a geographical breakdown of troubled loan 'normalization' based on current rates of recovery.

Next, as we now have at least six months' worth of performance data on Home Affordable Modification Program (HAMP) loan modifications after their initial interest rate step-ups, we thought it time to review this performance. We examine both HAMP and proprietary modifications, and look at the associated share of borrowers becoming 90-days delinquent post-step-up.

From there, we look at the impact of the 35 BPS decline in interest rates we've seen since the start of 2016, particularly as it relates to the issue of home affordability, and how that is playing out alongside continued home price appreciation. In addition, we look at how those rate declines have affected the population of borrowers who could both likely qualify for and have the incentive to refinance their 30-year mortgages.

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.

MARCH FIRST LOOK FINDINGS

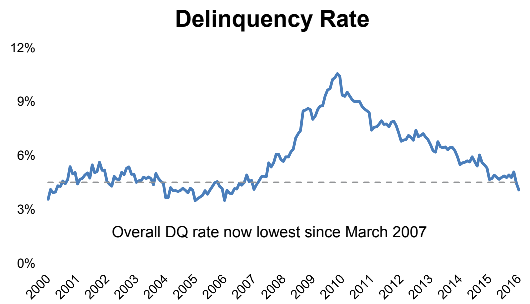
Here we have an overview of findings from [Black Knight's 'First Look' at March mortgage performance data](). This information has been compiled from Black Knight's [McDash]() loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.

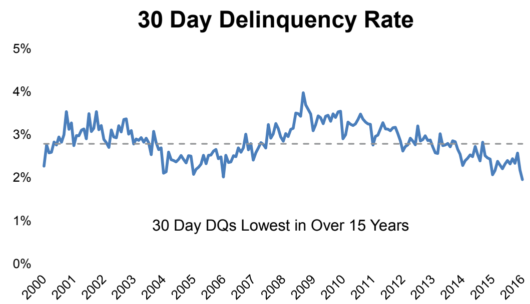
	Mar-16	Month-over-month change	Year-over-year change	12 Month Trend
Total U.S. loan delinquency rate (loans 30 or more days past due, but not in foreclosure):	4.08%	-8.37%	-12.42%	
Total U.S. foreclosure pre-sale inventory rate:	1.25%	-3.69%	-25.59%	
Total U.S. foreclosure starts:	72,800	-13.64%	-21.04%	
Monthly Prepayment Rate (SMM):	1.30%	46.03%	-16.90%	
Foreclosure Sales as % of 90+:	2.18%	17.30%	12.67%	
Number of properties that are 30 or more days past due, but not in foreclosure:	2,062,000	-190,000	-287,000	
Number of properties that are 90 or more days past due, but not in foreclosure:	733,000	-39,000	-193,000	
Number of properties in foreclosure pre-sale inventory:	631,000	-24,000	-215,000	
Number of properties that are 30 or more days past due or in foreclosure:	2,693,000	-214,000	-502,000	

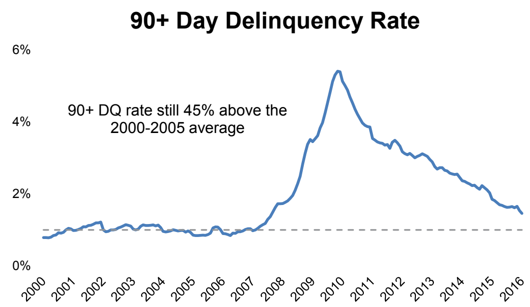
- Mortgage delinquencies fell by 8 percent in March – typically the calendar year low-point for delinquencies – with the national rate hitting 4.08 percent, the lowest it's been since March 2007
- Prepayment speeds jumped 46 percent from February, hitting their highest point since June 2015, though still 17 percent below the March 2015 level - during the early-2015 refinance surge
- Larger jumps in prepayments were seen in higher credit buckets and more recent vintages lending credence to the idea (discussed in [last month's Mortgage Monitor]()) of serial refinancers re-entering the market as interest rates drop
- Total non-current inventory (loans 30 or more days past due or in foreclosure) has fallen over half a million loans from last year and is now below 2.7 million, also for the first time since March 2007

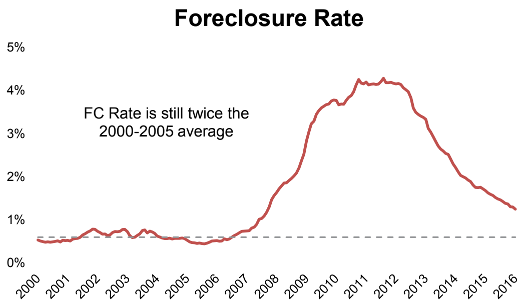
NON-CURRENT INVENTORY UPDATE

March's decline in mortgage delinquencies brought the national rate below the pre-crisis average, and 30-day delinquencies were at their lowest level in well over 15 years. Here, we take a closer look at the current state of non-current inventories, along with a geographical breakdown of troubled loan 'normalization' based on current rates of recovery. 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.





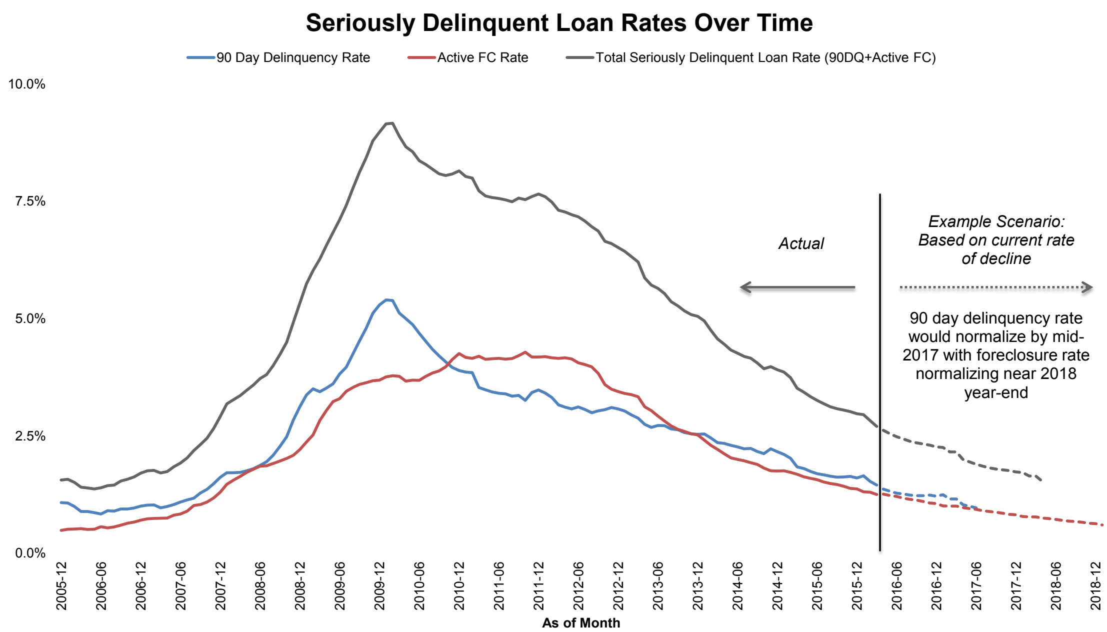




Dotted lines in each chart above represent the 2000-2005 average

- Overall delinquencies continue to improve, falling 8 percent month-over-month, 12 percent year-over-year, and – as mentioned on the previous page – are now at their lowest point since March 2007
- 30-day delinquencies continue to drop as well, and are currently sitting at 1.95 percent, the lowest level seen in well over 15 years, driven by pristine performance in recent vintages
- Severely delinquent loan populations (90 or more days delinquent or in active foreclosure) continue to linger in the market; 90+ is 45 percent above and the foreclosure rate is more than 2x above normal levels
- In a "normal" market, 30-day delinquent loans would account for roughly 55 percent of non-current loans; in today's overly "back heavy" market, they only make up about 37 percent
- As additional severely delinquent loans are removed from the market, delinquency rates will likely continue to dip below "normal" levels in an overcorrection of the market

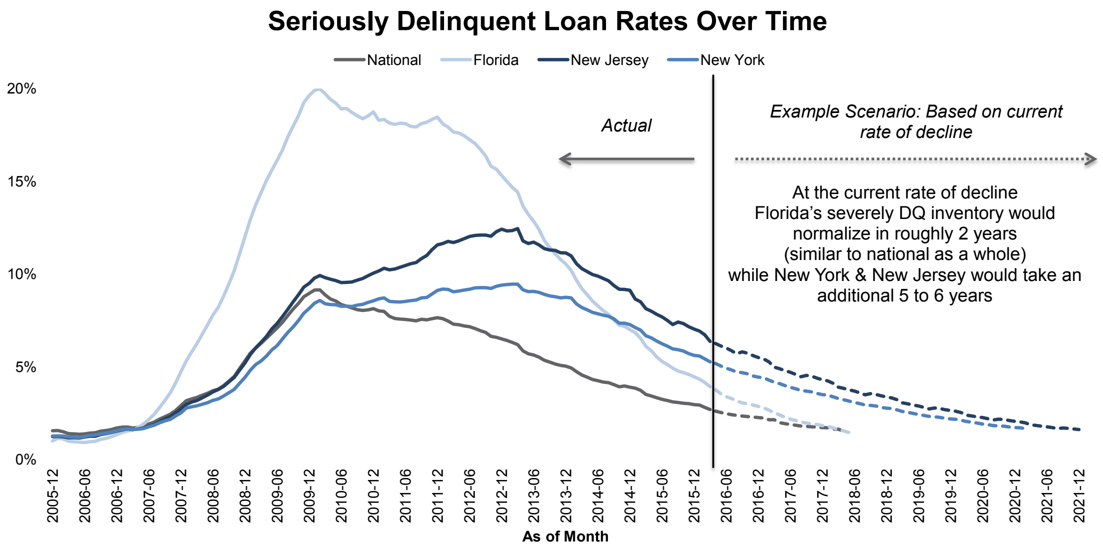
NON-CURRENT INVENTORY UPDATE



Example Scenario is based on the most recent 12 month average of annual reduction with 'normal' rate estimated at the 2000–2005 average

- Currently, the national 90+ day delinquency rate is dropping by 24 percent annually, while foreclosure inventory is declining at 23 percent
- The current rate of decline on 90+ inventory is faster than the roughly 16 percent annual decline seen over the prior 12 months due to a higher share of 90+ delinquent loans being moved into foreclosure
- On the other hand, the rate of decline on the foreclosure inventory is slightly slower than the prior 12 months for the same reason
- Using the current rate of decline for both inventories, we see that it will take over 2 more years for the 90+ and foreclosure rates combined to 'normalize'
- 90+ delinquencies will normalize first, in mid 2017, as they're closer to the norm now (+45 percent) and falling at a slightly faster rate
- As the foreclosure rate is more elevated vs. the norm, and dropping at a slightly slower rate , it will be near the end of 2018 before that inventory normalizes

NON-CURRENT INVENTORY UPDATE



- *Seriously Delinquent Loans above include mortgages that are 90 or more days delinquent or in active foreclosure.*
- *Example Scenario is based on the most recent 12 month average of annual reduction in each state's seriously delinquent population with 'normal' severely delinquent loan rates calculated as the 2000–2005 average for each geography*

» Together, Florida, New York and New Jersey hold one quarter of the entire nation's remaining 90+ delinquent and foreclosure inventory

» Florida leads the country with just under 145,000, New York has 133,000 and New Jersey has 107,000

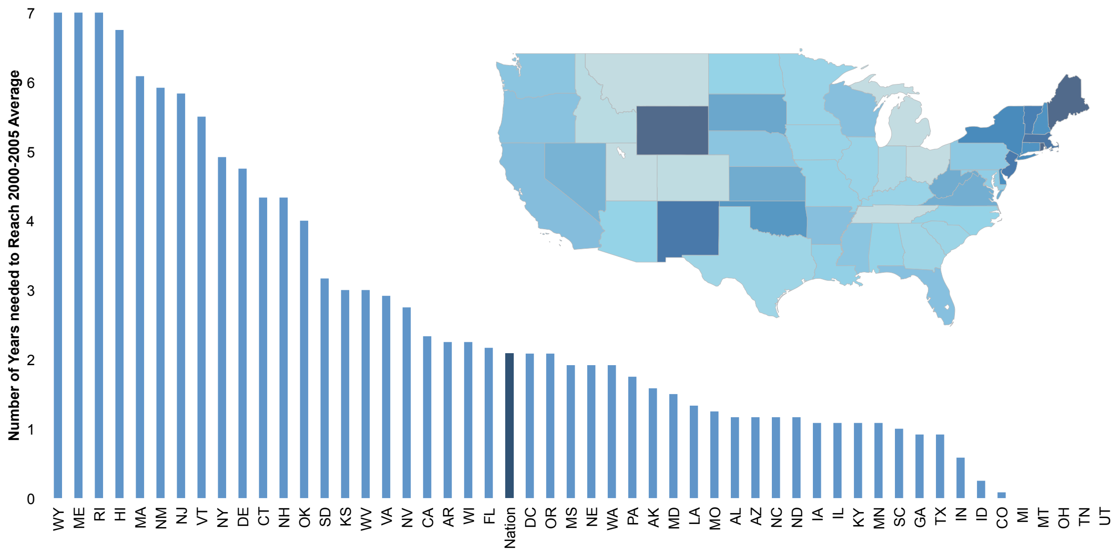
» Despite having the largest inventory of severely delinquent and active foreclosure loans, Florida's rate of reduction (-36 percent) means it will normalize at roughly the same time as the national average (mid-2018)

» On the other hand, the rates of reduction in New York (-21 percent) and New Jersey (-22 percent) suggest much longer paths to normalization; at their current rates of reduction, New York will take 5 years and with New Jersey 6 to reach "normal" seriously delinquent levels

» Note: the above example outcomes group 90+ and foreclosure inventories together; in all cases, 90+ day delinquencies will likely normalize first, followed by foreclosures

NON-CURRENT INVENTORY UPDATE

Severly Delinquent Inventory Recovery by State
(Example Scenario: Based on Current Rates of Reduction)



- *Seriously Delinquent Loans above include mortgages that are 90 or more days delinquent or in active foreclosure.*
- *Example Scenario is based on the most recent 12 month average of annual reduction in each state's seriously delinquent population with 'normal' severely delinquent loan rates calculated as the 2000–2005 average for each geography. Years to recover were capped at 7 for WY, ME, & RI*

» Despite the concentration of inventory in the two states, New York and New Jersey are not the slowest to recover when we look across the country; they are actually number 7 and 9 nationally, respectively

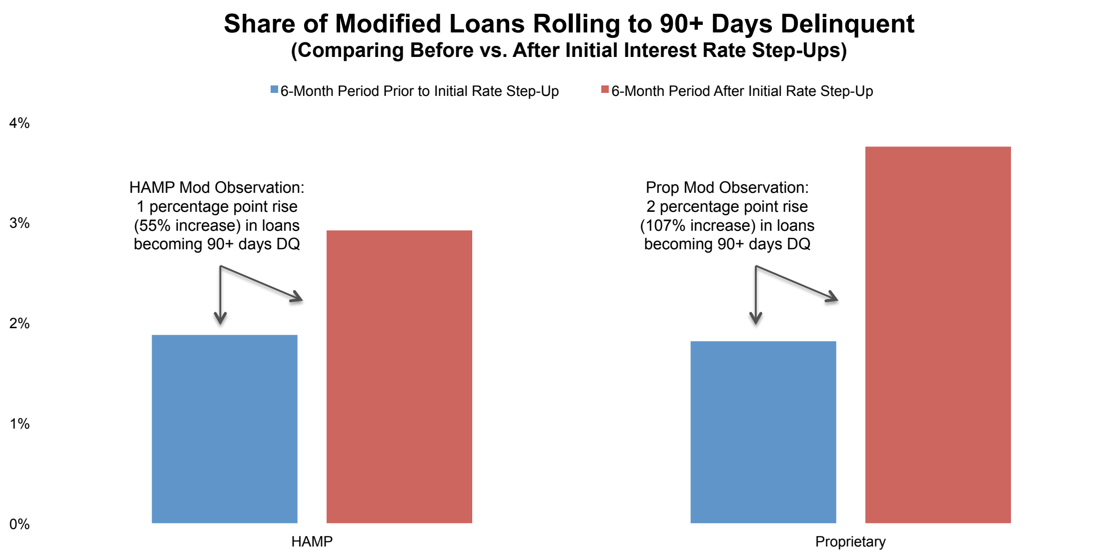
» Wyoming, Maine, and Rhode Island would all take more than 7 years to reach 2000-2005 average severely delinquent levels at their respective current rates of recovery

» Currently, five states (Michigan, Montana, Ohio, Tennessee and Utah) have returned to pre-crisis levels of severely delinquent inventory, while Indiana, Idaho and Colorado are on pace to achieve pre-crisis levels later this year

» Judicial states make up 7 of the top 10 and 11 of the top 15 in terms of longest recovery timelines, while 9 of the top 12 are in the northeast

LOAN MODIFICATIONS PERFORMANCE

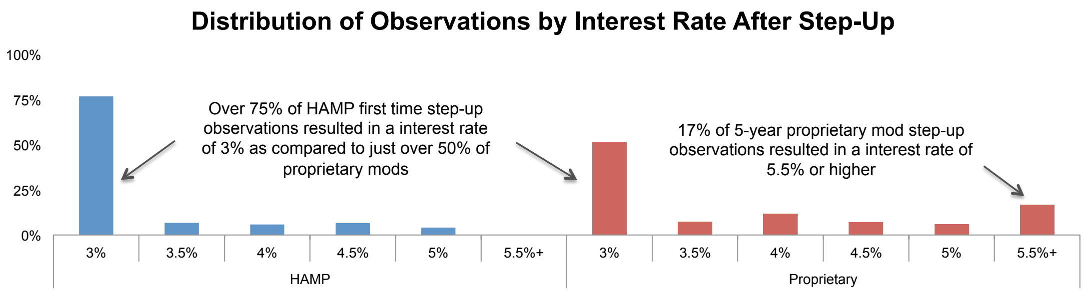
Here, we review interest rate step-ups on modified loans, including both Home Affordable Modification Program (HAMP) and proprietary modifications, and examine the associated share of borrowers becoming 90-days delinquent. This information has been compiled from Black Knight's McDash loan-level mortgage performance database and the McDash Loss Mitigation module. You may click on each chart to see its contents in high-resolution.

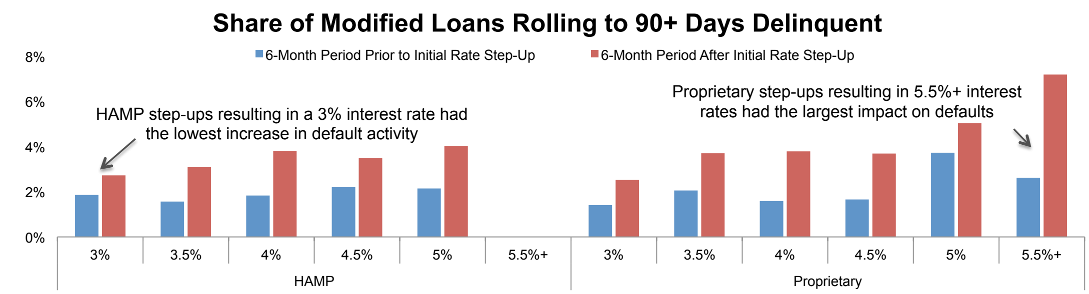


Source: McDash™ Loss Mitigation Module
Loan level observations of 64,600 HAMP modifications and 33,600 proprietary modifications experiencing initial interest rate step ups at 5 years post mod Limited to only modifications with 6 months of history post reset. Figure above reflects the percent of loans that went from less than 90 to 90+ days DQ

- In this chart, we look at a pool of 64,600 first time HAMP interest rate step-ups and 33,600 first time proprietary step-ups, taking place 5 years after modification, with at least 6-months of data to observe post interest rate reset
- Note: various step-up structures exist for proprietary modifications; for the purpose of this analysis, proprietary modifications reviewed were limited to those with initial rate step-ups at 5 years
- Interest rate step ups were observed to increase default rates; however, the impact so far has been relatively minimal
- Only about 1 percent of borrowers observed going through the initial round of HAMP step-ups appear to have defaulted because of their rise in payment
- To put this in context, of the estimated ~290,000 borrowers that faced first time rate step-ups through Q4 2015, only 2900 would have become 90-days delinquent as a result
- According to the U.S. Department of the Treasury, 96% of HAMP modifications received an interest rate reduction as part of the modification, and 80% will experience at least 1 rate step up after 5 years

LOAN MODIFICATIONS PERFORMANCE

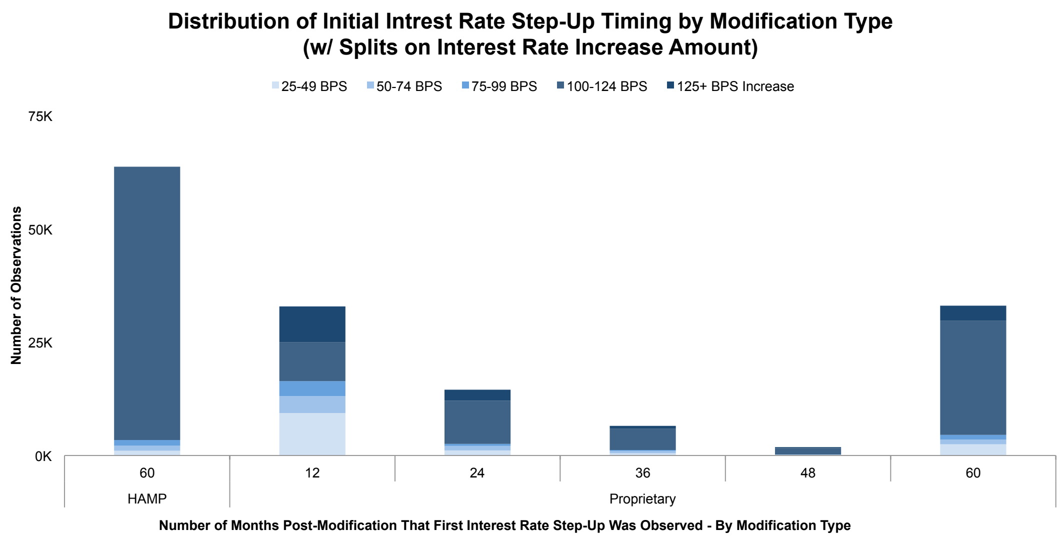




Loan level observations of 64,600 HAMP modifications and 33,600 proprietary modifications experiencing initial interest rate step ups at 5 years post mod Limited to only modifications with 6 months of history post reset. Figure above reflects the percent of loans that went from less than 90 to 90+ days DQ

- » Here we examine the correlation between post-step-up resulting interest rate and impact on defaults, and see the more pronounced impact of proprietary step-ups on 90-day delinquencies is due in part to their higher resulting rates
- » Step-ups resulting in 3 percent rates had the lowest impact on default activity within both the HAMP and proprietary modification categories
- » HAMP modifications going from 2 to 3 percent saw the lowest impact (.9 percentage point increase, and a 46 percent rise in loans rolling into 90-day delinquent status)
- » Proprietary modifications resulting in an interest rate of 5.5 percent or higher saw the greatest impact (a 4.6 percentage point increase and 174 percent rise in roll rate); 10 percent of those borrowers saw a 3 percent rise in their interest rate
- » On the HAMP side, borrowers who saw a resulting rate of 4 percent experienced twice the impact of those resulting in a 3 percent increase

LOAN MODIFICATIONS PERFORMANCE



Figures above are based on initial rate step-up observations of 63,700 HAMP and 88,900 Proprietary Modifications completed during or prior to Q3 2010
Because the above figures are based on observed step-up activity and there is a decreased likelihood of a modified loan being alive at later initial step-up dates these figures may underestimate the share of later initial step-up intervals and should not be used to estimate the distribution of initial modification terms

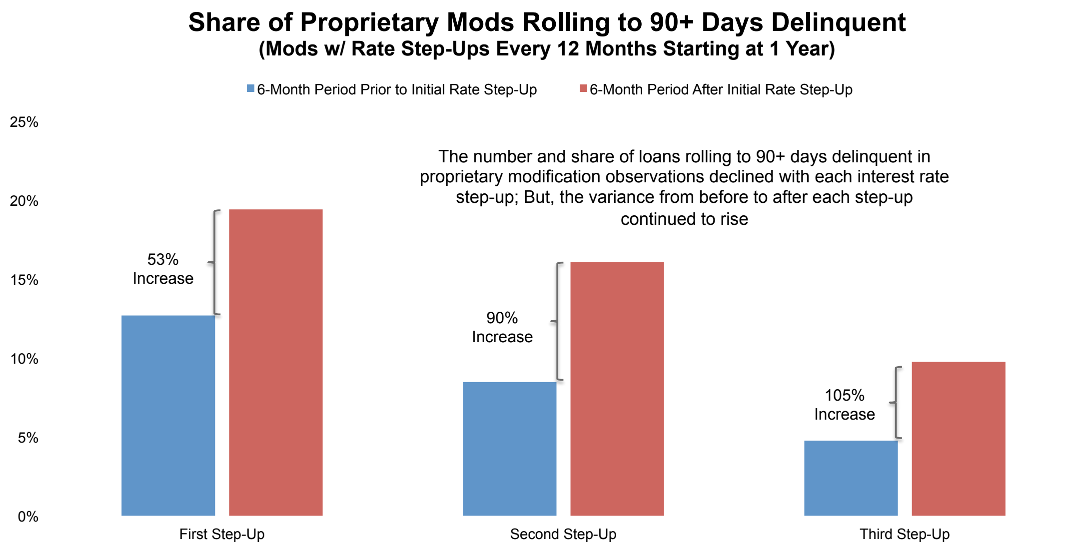
» This chart shows the differences in modification features in the market in order to shed light on potential second step-up performance on HAMP mods using proprietary modification details

» Unlike HAMP, which has a uniform 60-month period before the initial interest rate step-up, proprietary modifications have a wide array of step-up features and timing

» Early step-up features observed in the proprietary population along with their associated impact on 90-day delinquencies are a likely contributor to high early recidivism rates observed in proprietary modifications

» Additionally, a good share of proprietary modifications saw significant interest rate increases after just one year; 24 percent of those borrowers saw increases of 125BPS or more at one year after modification

LOAN MODIFICATIONS PERFORMANCE

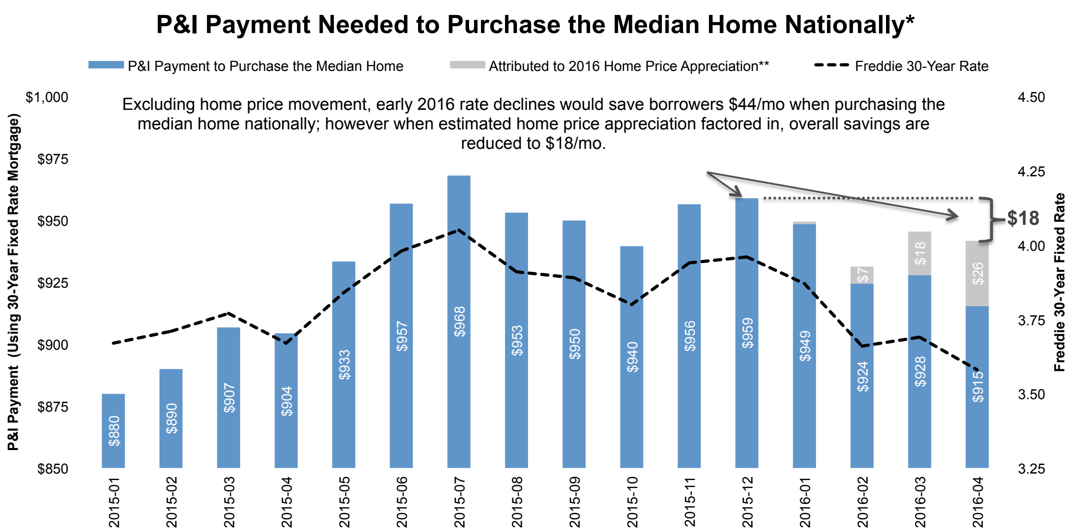


Source: McDash™ Loss Mitigation Module - Loan level review of 42,000 proprietary modifications with initial interest rate step ups starting at 12 months and subsequent step-ups at 12 month intervals thereafter

- Here we examine proprietary modifications that have faced multiple step-ups, as their performance may provide insight into future HAMP performance
- The further along a borrower progresses in a modification, the more likely the borrower is to continue to perform (both before and after step-up); however, the higher the interest rate rises, the more of an impact (in terms of percentage increase of loans rolling into 90-day delinquent status) the reset itself may have
- If HAMP follows this same trend, the 2 percent before step-up and 3 percent after step-up will likely be lower with the second round of step ups, although the percentage difference will likely be greater
- Additionally, since the likelihood is lower for loans to still exist after 72 months, the number of HAMP mortgages still alive at the second step-up will be significantly lower than during the first

IMPACT OF INTEREST RATE DECLINES

Here we look at the impact of early-2016's declining interest rates on both the issue of home affordability and the population of borrowers who both could likely qualify for and would have the incentive to refinance their 30-year mortgages. This information has been compiled from Black Knight's McDash loan-level mortgage performance database and also leverages data from the Black Knight Home Price Index. You may click on each chart to see its contents in high-resolution.

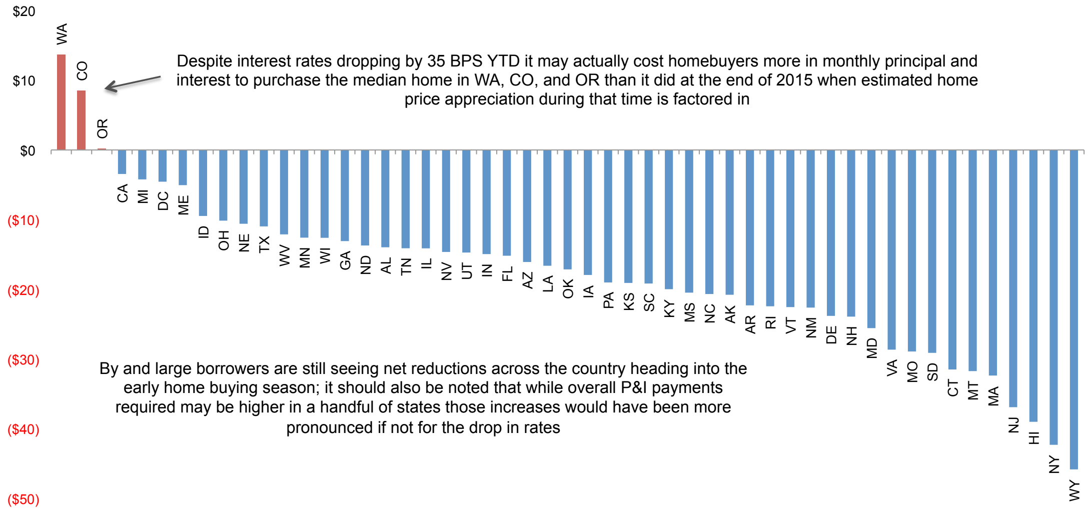


*P&I Payment is calculated based on a 30-year 80% LTV fixed rate mortgage on the median home price nationally at each point in time
February – April 2016 median national home prices are estimated based on 5.3% current rate of HPA as of January 2016
Freddie 30-Year Fixed Rate of 3.58% reported for the week of April 14, 2016 was used for the April 2016 figures above

- Excluding home price movement, the ~35BPS YTD interest rate decline through mid-April 2016 would save borrowers approximately $44 a month when purchasing the median-priced home nationally
- When factoring in home price appreciation (HPA) – the most recent Black Knight Home Price Index Report for February showed annual HPA at 5.3 percent – those monthly savings fall to just $18 per month
- Rate reductions are still beneficial to buyers –if rates *hadn't* dropped over the past four months, it would cost an additional $28/month to buy the median-priced home today as compared to December 2015
- Compared to one year ago when interest rates were 3.67 percent (9BPS higher than the rate used for this analysis), purchasing the median home today costs $37/ month more because of home price appreciation

IMPACT OF INTEREST RATES DECLINES

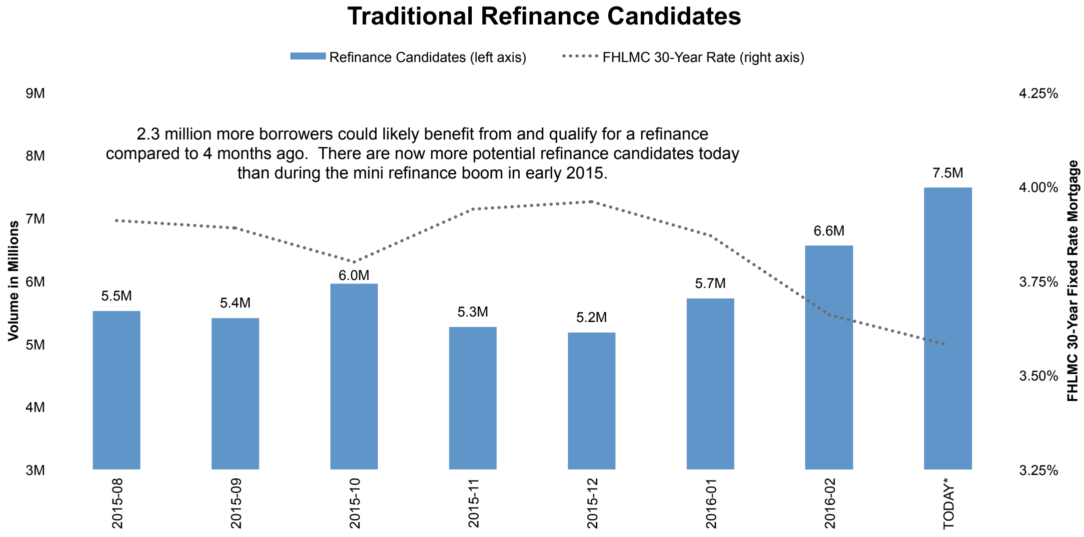
Net Change in P&I Payment to Buy the Median Home in Early 2016*
(Factoring in Interest Rate Reduction and Estimated Home Price Appreciation)



**P&I Payments were calculated based on a 30-year 80% LTV fixed rate mortgage on the median home price in each state*
February – April 2016 home price appreciation was estimated using the current rate of annual appreciation in each state as of January 2016
Freddie 30-Year Fixed Rate of 3.58% reported for the week of April 14, 2016 was used for the April 2016 figures above

- This chart looks at the net change in the monthly principal and interest (P&I) payment required to purchase the median priced home at the state level from December 2015 to April 2016 including both changes in interest rates and estimated home price appreciation
- In some areas, prices are appreciating so quickly that they may have fully offset any savings from rate declines
- Assuming the HPA observed in February continues through March and April, it may already cost home buyers more in monthly P&I to purchase the median-priced home in Washington, Colorado and Oregon than at the end of 2015

IMPACT OF INTEREST RATES DECLINES

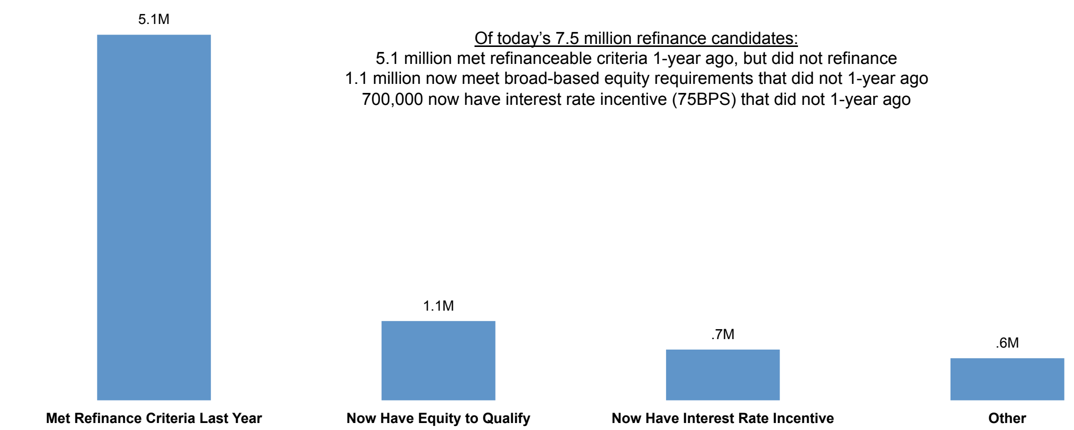


***Refinance Candidates** are borrowers that are current on their 30-year mortgage with <=80% current LTVs, credit scores >= 720, and current interest rates on their mortgage >= 75 BPS above the 30-year fixed rate at the time as reported in the FHLMC rate survey*
TODAY *is based on FHLMC 30-year rate as of April 14th 2016 of 3.58%*

- Falling interest rates have also served to increase the population of borrowers that could both qualify for and benefit from refinancing their 30-year mortgages
- Using broad-based eligibility criteria, Black Knight estimates this population has grown by 2.3 million in the two months since we last looked at the situation, for a total of 7.5 million borrowers, the largest it's been since 2013
- Approximately 40 percent of these refinance candidates' mortgages are from the 2009-2011 vintages, originated during the downturn of the market, suggesting perhaps a lack of awareness of sufficient equity to qualify for a refinance

IMPACT OF INTEREST RATES DECLINES

Distribution of Current Refinance Candidates
(Change in Refi-able Status from April 2015)



Met Refinance Criteria Last Year –Met all eligibility requirements 1-year ago, but have not yet refinanced
Now Have Equity to Qualify - Borrowers that did not have enough equity (20%) to qualify for a refinance 1-year ago, but do today
Now Have Interest Rate Incentive – Borrowers that did not have 75BPS interest rate incentive to refinance 1-year ago, but do today
Other – Mortgages that were not alive, or did not have sufficient information to analyze 1-year ago but meet all refinance criteria today

- Roughly one million of today's 7.5 million refinance candidates have crossed the 20 percent equity threshold over the past 12 months and now have the 80 percent LTV necessary to qualify for a refinance under general underwriting guidelines
- Another ~700,000 now have interest rate incentive they lacked last April
- However, Black Knight's analysis shows that over two-thirds of the total population (5.1 million) met eligibility requirements in early 2015 as well, but did not take advantage of refinancing at that time

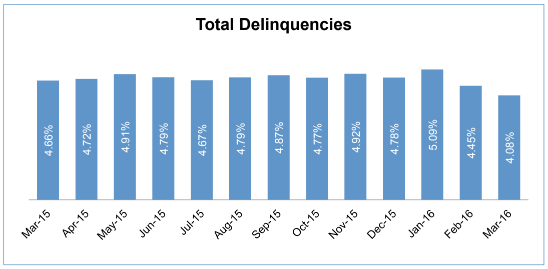
APPENDIX

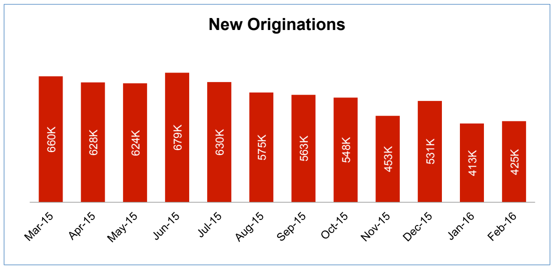
» March 2016 Data Summary

Summary Statistics

	Mar-16	Monthly Change	YTD Change	Yearly Change
Delinquencies	4.08%	-8.37%	-19.89%	-12.42%
Foreclosure	1.25%	-3.69%	-4.30%	-25.59%
Foreclosure Starts	72800	-13.64%	1.25%	-21.04%
Seriously Delinquent (90+) or in Foreclosure	2.70%	-4.44%	-8.51%	-23.22%
New Originations (data as of Feb-16)	425K	3.0%	-20.0%	-17.9%

	Mar-16	Feb-16	Jan-16	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15	Jun-15	May-15	Apr-15	Mar-15
Delinquencies	4.08%	4.45%	5.09%	4.78%	4.92%	4.77%	4.87%	4.79%	4.67%	4.79%	4.91%	4.72%	4.66%
Foreclosure	1.25%	1.30%	1.30%	1.37%	1.38%	1.43%	1.46%	1.48%	1.52%	1.56%	1.59%	1.63%	1.68%
Foreclosure Starts	72,800	84,300	71,900	78,100	66,600	73,200	79,900	76,200	71,500	78,100	77,400	70,400	92,200
Seriously Delinquent (90+) or in Foreclosure	2.70%	2.82%	2.95%	2.97%	3.02%	3.05%	3.08%	3.12%	3.18%	3.25%	3.33%	3.43%	3.51%
New Originations		425K	413K	531K	453K	548K	563K	575K	630K	679K	624K	628K	660K





» 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%
3/31/16	50,533,910	986,412	343,124	732,765	630,766	2,693,065	72,762	514	1,071	116.2%

APPENDIX

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

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.1%**	**1.2%**	**5.3%**	**-16.0%**
MS	9.5%	1.3%	10.8%	-12.6%
LA *	7.5%	1.5%	9.0%	-5.7%
NJ *	4.6%	3.9%	8.5%	-19.2%
NY *	4.3%	3.5%	7.9%	-17.6%
AL	6.8%	0.8%	7.6%	-11.5%
ME *	4.9%	2.7%	7.5%	-16.3%
RI	5.6%	1.9%	7.5%	-18.4%
WV	6.2%	1.0%	7.2%	-8.4%
DE *	4.8%	2.0%	6.9%	-11.0%
PA *	5.0%	1.7%	6.7%	-13.7%
OK *	4.9%	1.8%	6.7%	-6.7%
FL *	4.4%	2.3%	6.7%	-25.1%
HI *	3.3%	3.4%	6.6%	-14.6%
IN *	5.1%	1.5%	6.5%	-13.9%
AR	5.5%	1.0%	6.5%	-15.8%
CT *	4.5%	1.9%	6.5%	-15.7%
SC *	4.8%	1.5%	6.3%	-13.9%

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.1%**	**1.2%**	**5.3%**	**-16.0%**
MD *	4.9%	1.4%	6.3%	-16.8%
GA	5.5%	0.7%	6.2%	-12.9%
TN	5.7%	0.5%	6.2%	-16.3%
NM *	3.9%	2.3%	6.2%	-9.5%
OH *	4.5%	1.4%	6.0%	-14.9%
MA	4.2%	1.5%	5.7%	-18.1%
TX	5.0%	0.7%	5.6%	-7.6%
NC	4.7%	0.8%	5.4%	-14.2%
NV	3.6%	1.7%	5.4%	-22.0%
KY *	4.1%	1.3%	5.3%	-14.7%
IL *	3.9%	1.4%	5.3%	-18.8%
VT *	3.4%	1.7%	5.1%	-16.0%
MO	4.5%	0.6%	5.0%	-13.3%
KS *	4.0%	1.0%	5.0%	-12.6%
DC	2.9%	2.1%	4.9%	-15.1%
WI *	3.6%	1.1%	4.6%	-16.2%
NH	3.8%	0.7%	4.5%	-19.2%

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	**4.1%**	**1.2%**	**5.3%**	**-16.0%**
MI	3.9%	0.4%	4.3%	-17.3%
IA *	3.1%	1.0%	4.1%	-13.3%
VA	3.7%	0.5%	4.1%	-14.1%
WY	3.1%	0.8%	3.9%	-2.9%
UT	3.2%	0.5%	3.7%	-14.5%
WA	2.5%	1.1%	3.6%	-22.0%
OR	2.3%	1.3%	3.6%	-22.6%
NE *	3.2%	0.4%	3.6%	-16.4%
AZ	2.9%	0.5%	3.4%	-13.7%
CA	2.9%	0.5%	3.4%	-11.6%
ID	2.3%	0.8%	3.2%	-17.6%
MT	2.3%	0.7%	3.0%	-11.2%
AK	2.5%	0.4%	2.9%	-12.0%
SD *	2.1%	0.7%	2.8%	-13.5%
CO	2.2%	0.4%	2.7%	-16.8%
MN	2.3%	0.4%	2.6%	-17.8%
ND *	1.5%	0.5%	2.0%	-0.1%

*** - 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