



REO: State of the Industry

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Benham REO Conference

October 2011

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Banks' REO Pipeline Busting

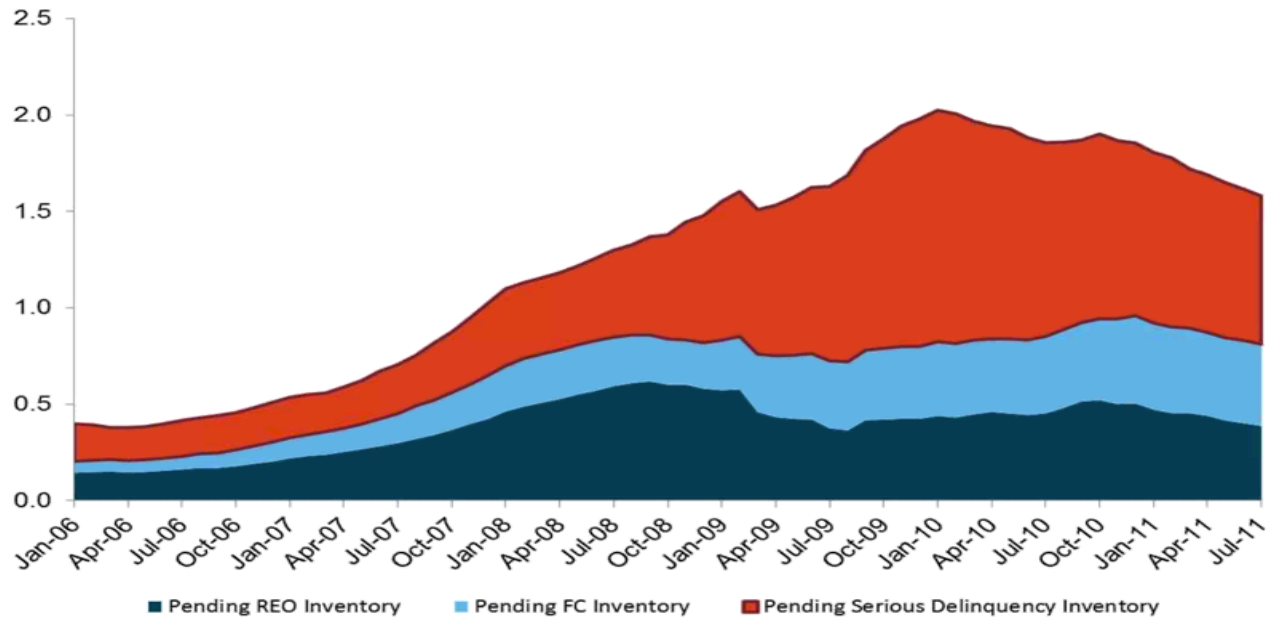
- Barclays Capital reports end of July Bank-owned 476,000 properties.
- 1.57MM homes 90+ days delinquent but not in foreclosure
- 1.91MM homes in foreclosure
- Total 4.0MM future REOs
- Assumes short horizon.

Shadow Inventory



The Stock of Distress in the Shadows

Shadow Inventory Detail
Count in Millions



Source: CoreLogic July 2011

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Proposal: REO to Rental

- Treasury, HUD, FHFA request comments on bulk sale of REOs with proviso of 5 year or longer rental period then REO sale.
- Mortgage Bankers Association strongly endorsed as only way to work through overhang of Shadow inventory.
- Expect Local Market & National auctions like sales of Non-performing Loans to Capital.

Mortgage-back Securities

- Bond investors in Residential Mortgage-backed securities that rely on REOs for collateral will not experience losses until 2013 based on delays, especially in judicial States, to complete foreclosures.
- Modifications as a loss mitigation tool has been ineffective.
- Bond holders pressure for other remedies.

Servicers Remedial

- Servicers (14: 68% mortgages), LPS and MERS signed Consent Order with OCC to settle investigation into faulty servicing practices including robo signing
- Questionnaires to 4.5MM mortgagors for for 2009-2010 asked if errors, omissions in processing. Will take a year to rectify.
- New procedures developed by OCC to apply to Servicers to be announced.

Fannie Economist: Little Growth

- Shift accelerate away from homeownership to rental if supply of SF rentals can be developed
- Investment in Multi-family lags, vacancy low
- Existing home sales weak and new construction in trough; HB stocks down 38% in two months
- 1% GDP growth “stall speed” of economy; expect lift to 2%

WH Proposal: Refinancing

- Scope: Refinance 11MM mortgages in negative equity
- Fannie & Freddie borrowers with LTV 80%-125% qualify by the mortgage originator
- Since 2009, 838,000 refi versus goal of 4MM
- FHFA Ed DeMarco study of enhancements to raise the LTV ceiling of 125%
- Coordinate low rates with FED & Refi rates

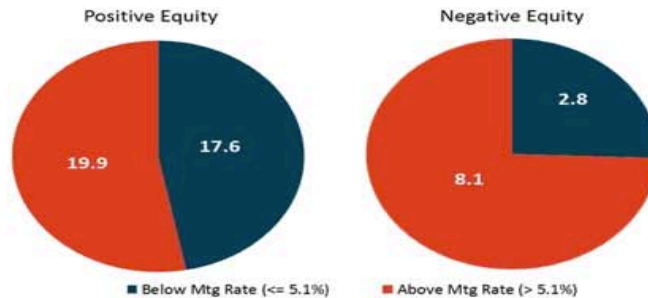
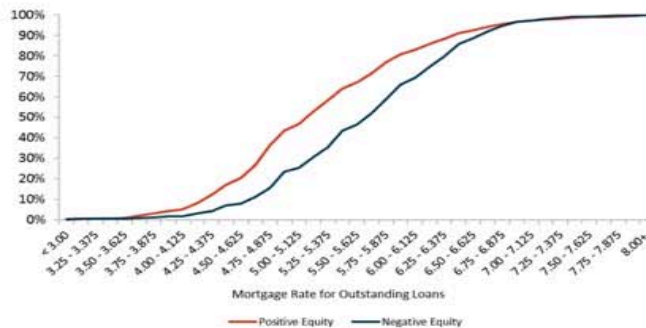
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Refinancing Barriers



Current Rate by Equity Type



- The ability to refinance is limited by equity
 - ♦ 28 million mortgages with above market rates.
 - ♦ 53% of those with positive equity should refinance
 - ♦ Many probably have insufficient positive equity or would not pass tighter underwriting guidelines on credit quality and ability to pay.
 - ♦ 75% of those with negative equity may want to refinance but cannot.

Source: CoreLogic Q2 2011

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CA Foreclosure Filings Jump

- RealtyTrac reports increase 55% in default notices in CA and rising as mortgage servicers thaw robo signing freeze.
- BofA increase foreclosure starts 116% in August.
- Correction from post-robo signing pause to re-start REOs.

Home Prices Decline into 2012

- JPMorgan forecast additional 5% decline in Home Prices through Winter 2012
- Bottom in home prices early spring 2012 before selling season
- Household formation 1.2MM per year
- Distressed sales 30-40% of closings.

Home Prices



Will Prices Ever Grow Again?

House Price Appreciation Still Expected to Turn Positive in 2012



Source: CoreLogic, July 2011

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FHFA Ups Mortgage Insurance

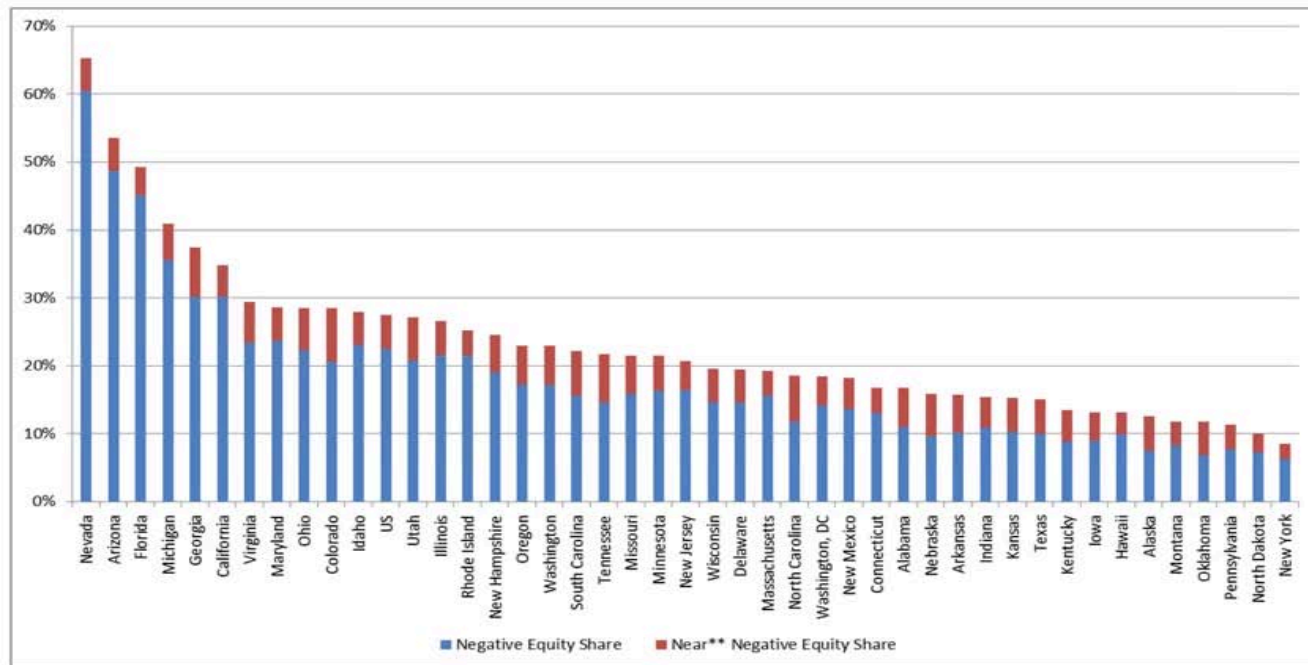
- As conservators of the GSEs, FHFA to require higher mortgage insurance from private companies to reduce the GSE long term risk
- May require mortgage insurance not just at 80% LTV but at lower LTV amounts.
- Private mortgage insurance companies tanked by claims.

Negative Equity



Negative Equity Reduces Turnover and Mobility

Q2, 10.9 million households (22.5%), Falling from Foreclosures



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FICO Scores

- 2.8M consumers have credit scores dropped into 550 to 650 now than in 2008 caused by:
 - Foreclosure
 - Bankruptcy
 - Delinquencies

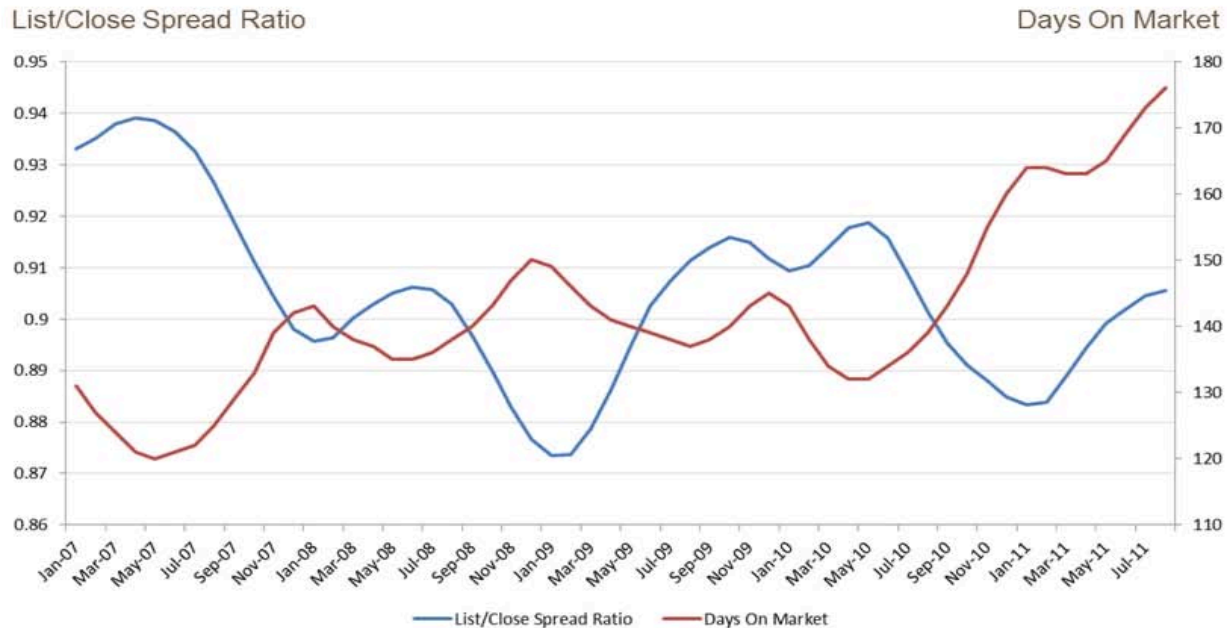
Fair Issac reported FICO score recovery from foreclosure takes 3-7 years to repair.

Conditions Ripe for Capital



Buyer's Bidding Power Has Been Strong

Days On Market Increased and Sales are Discounted relative to Asking Price



Source: CoreLogic, August 2011

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Conclusions

- Benham REO is the right business, building quality reputation and performance during lean period readies for market turn.
- Many ideas from many agencies; ultimately REOs sold one-at-a-time the best return for Banks & Gov't owners.
- Follow events closely but stay the course for REO sales volume upturn.