

AN ALFN WEBINAR PRESENTATION

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educating America's mortgage
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ALFN WEBINAR

2020 Vision

Forecasting Default Industry and Housing Market Trends

*Wednesday, July 22nd, 2020
1:00-2:15 PM Central Time*

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Contact information for today's presenters

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See Speaker Bio's Slide #'s 49-52

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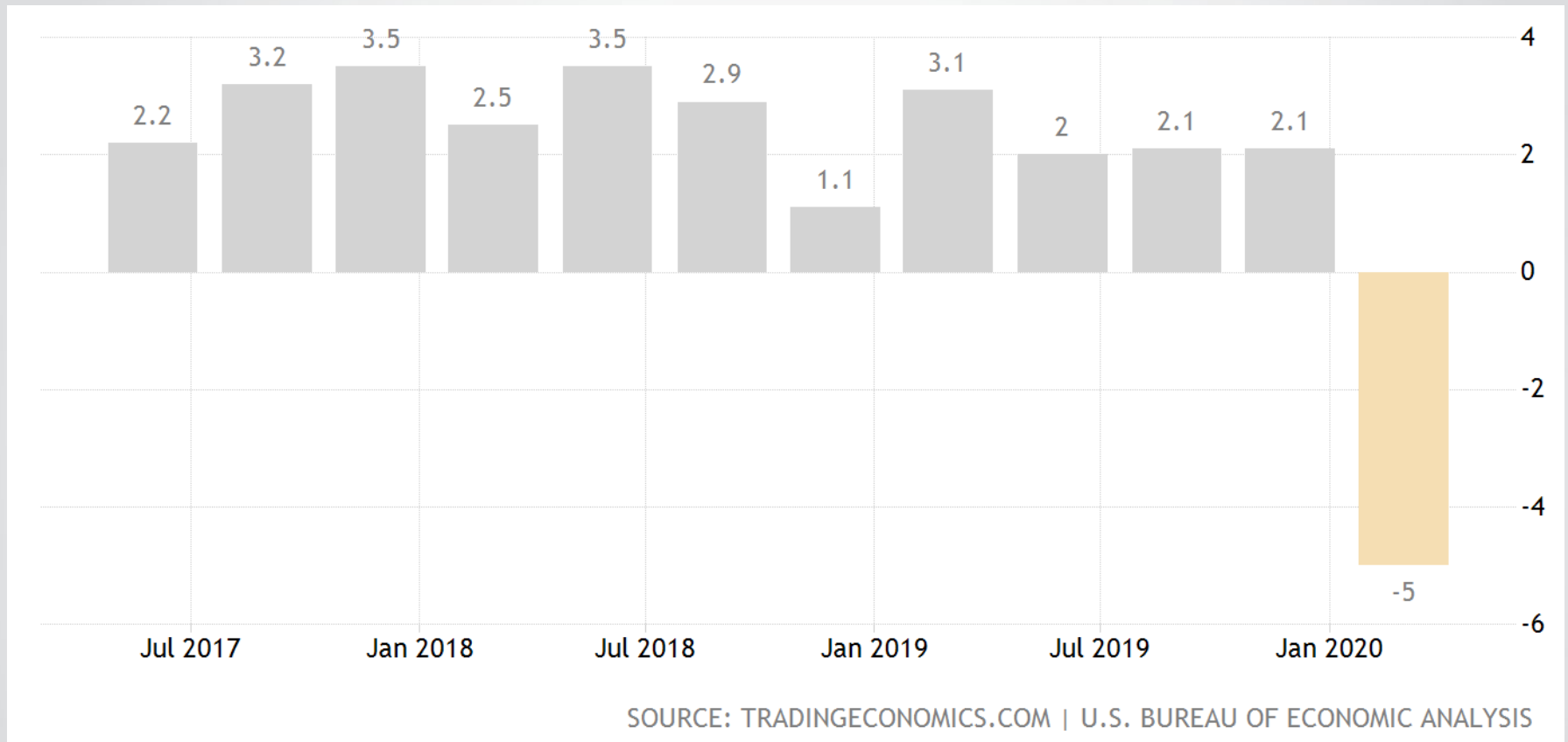
Default Industry & Housing Market Outlook

What We'll Cover Today

- A look at the U.S. economy during the COVID-19 pandemic
- The impact of the pandemic on the housing market
- Will forbearance = foreclosure?
- Q&A



GDP Falls as U.S. Enters a Recession



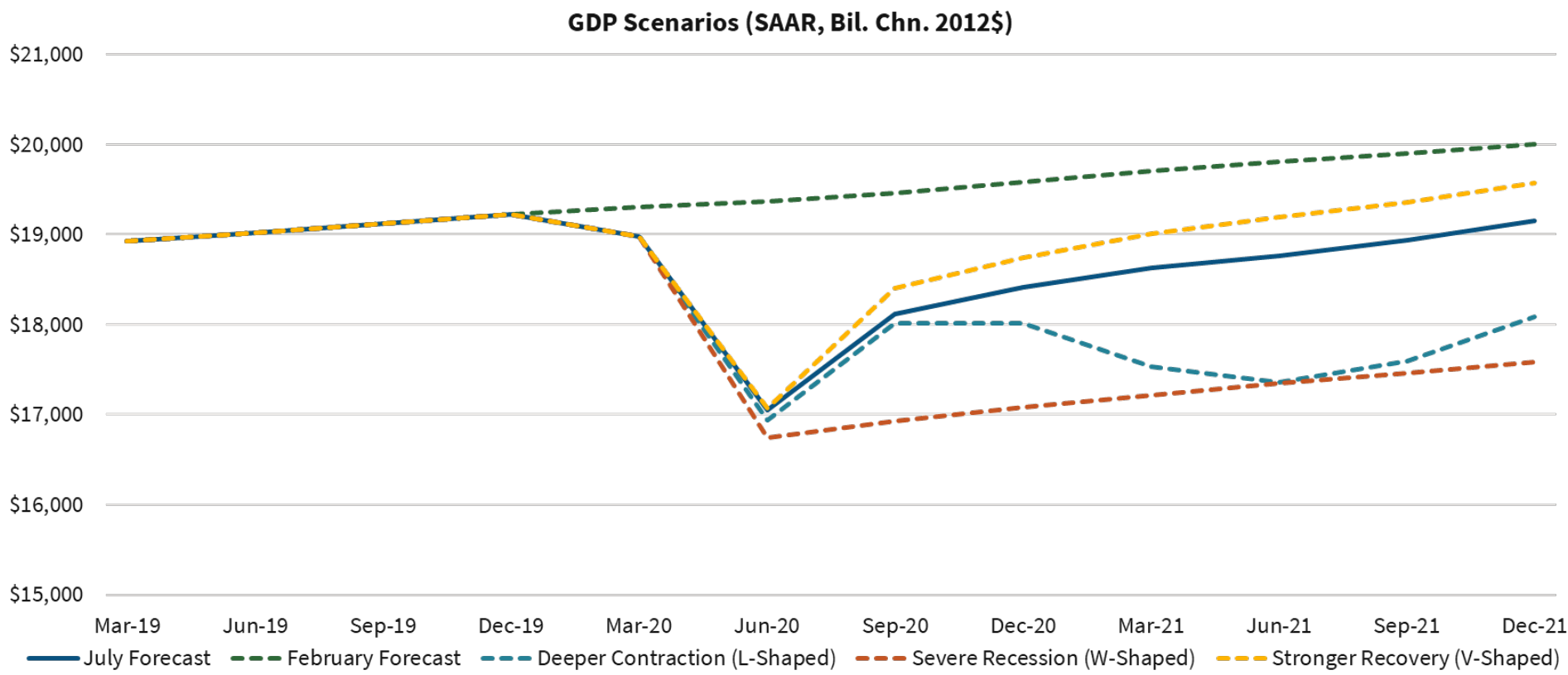
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Thinking in Terms of Scenarios Given Current Uncertainty

GDP Outlook Can Vary Significantly Depending on a Given Scenario

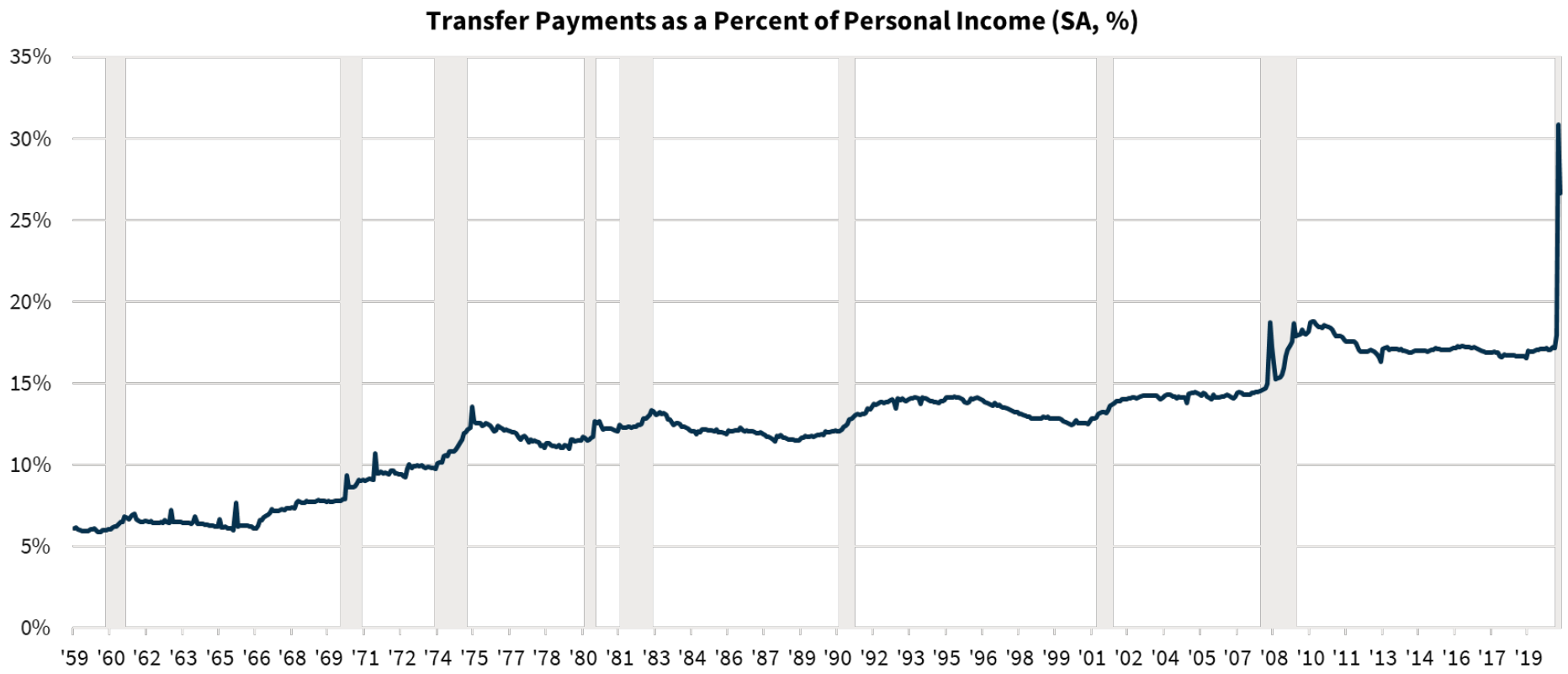


Source: Bureau of Economic Analysis

Source: Fannie Mae - ESR

Transfer Payments Have Helped Bolster the Economy So Far

Uncertainty Remains Regarding Period After CARES Act Mandated Unemployment Benefits Expire

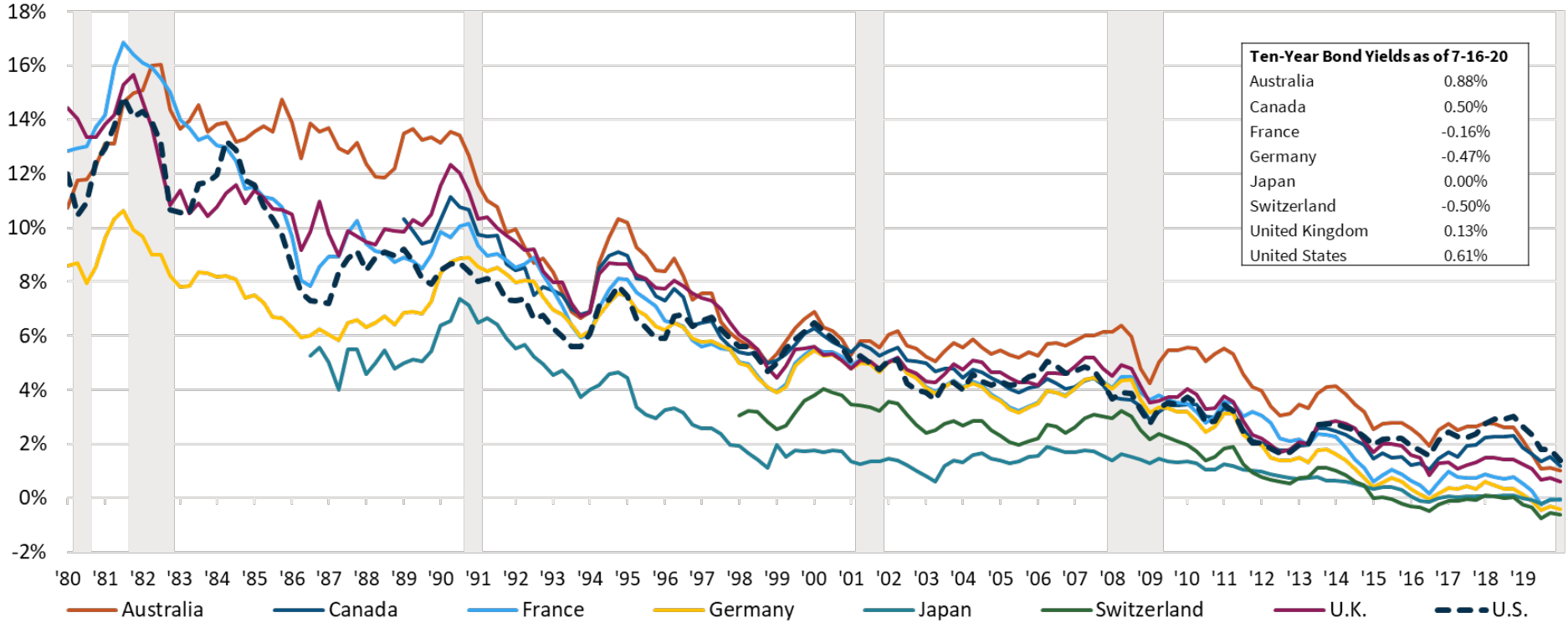


Source: Bureau of Economic Analysis

Ten-Year Treasury Yields

US Yield Higher Than Most Industrial Nations' Equivalent

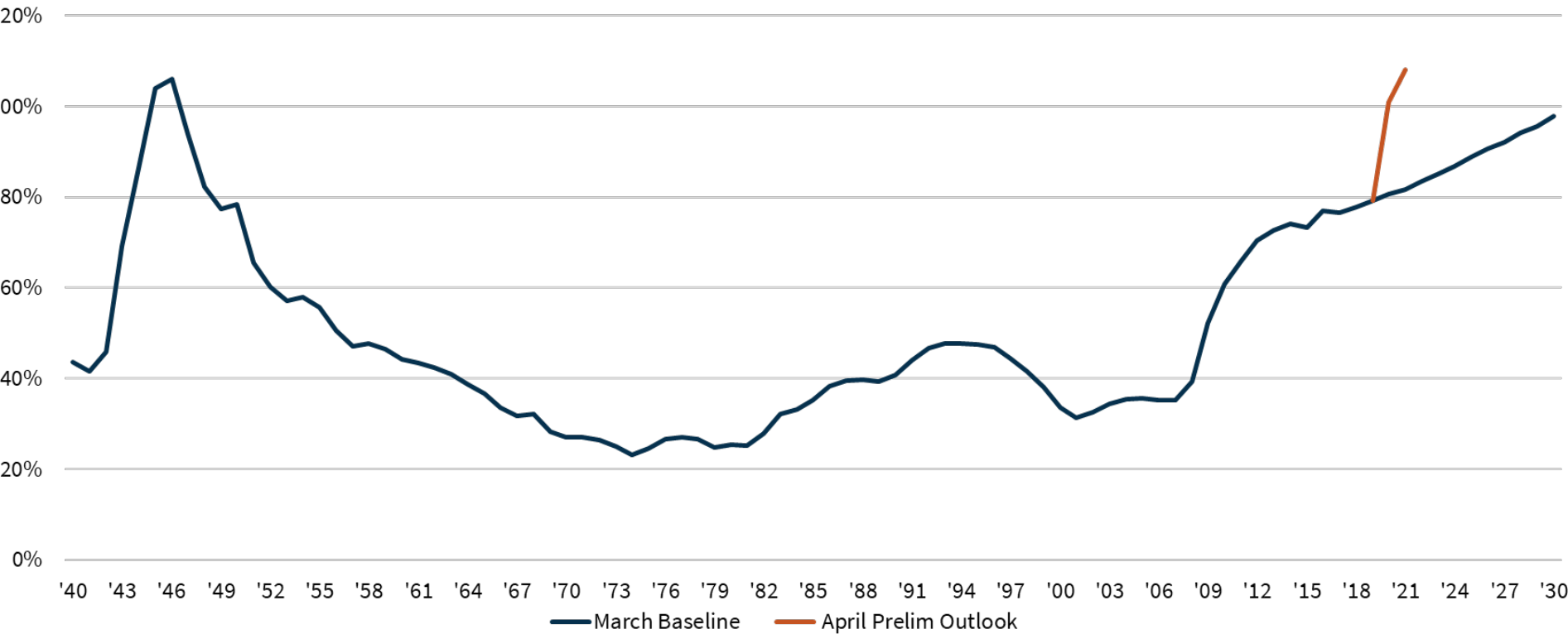
Ten-Year Bond Yields of Major Industrialized Nations (Quarterly Average, %)



Source: Official Sources via Haver Analytics, Bloomberg

Debt as a Share of GDP Expected to Surge Following Increase in Expenditures in Effort to Combat the Effects of the Coronavirus

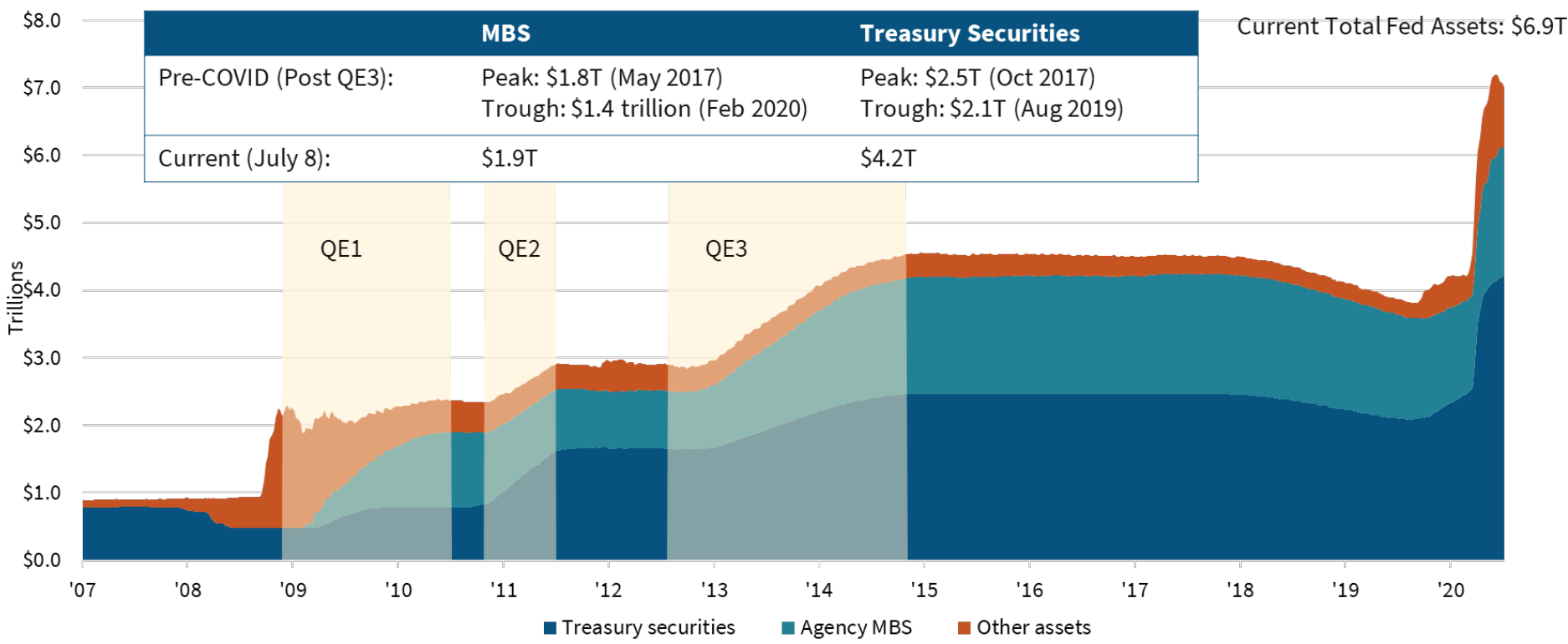
Debt Held by the Public as a Share of GDP (FY, %)



Source: Congressional Budget Office

Composition of Fed Balance Sheet

Fed Balance Sheet Approaches \$7.0 Trillion, Including \$1.9 Trillion in MBS



Source: Federal Reserve

POLLING QUESTION #1

Here's your chance to play Economic Forecaster.

What do you expect the U.S. GDP to be in Q2 2020?

-10-15%

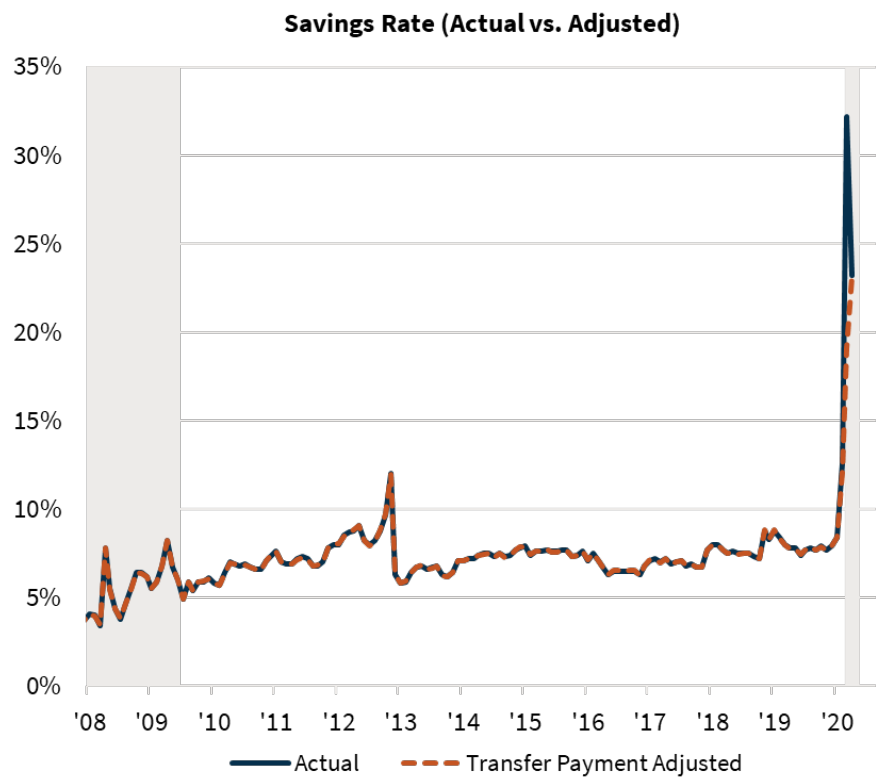
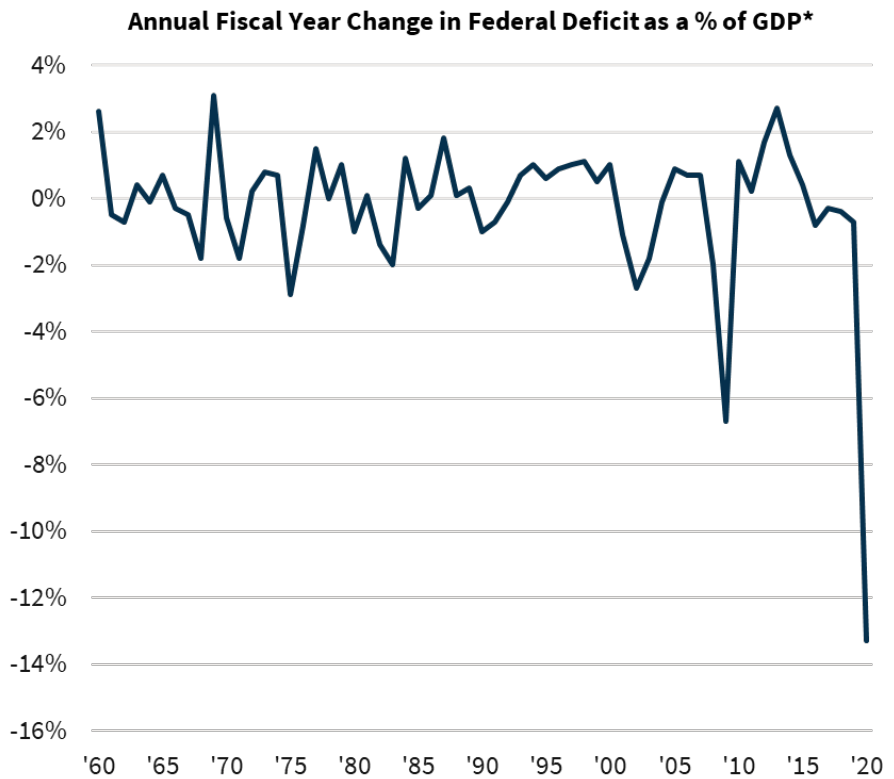
-15-20%

-20-30%

-30% or higher

Potential for Rebound: Demand Side of Economy

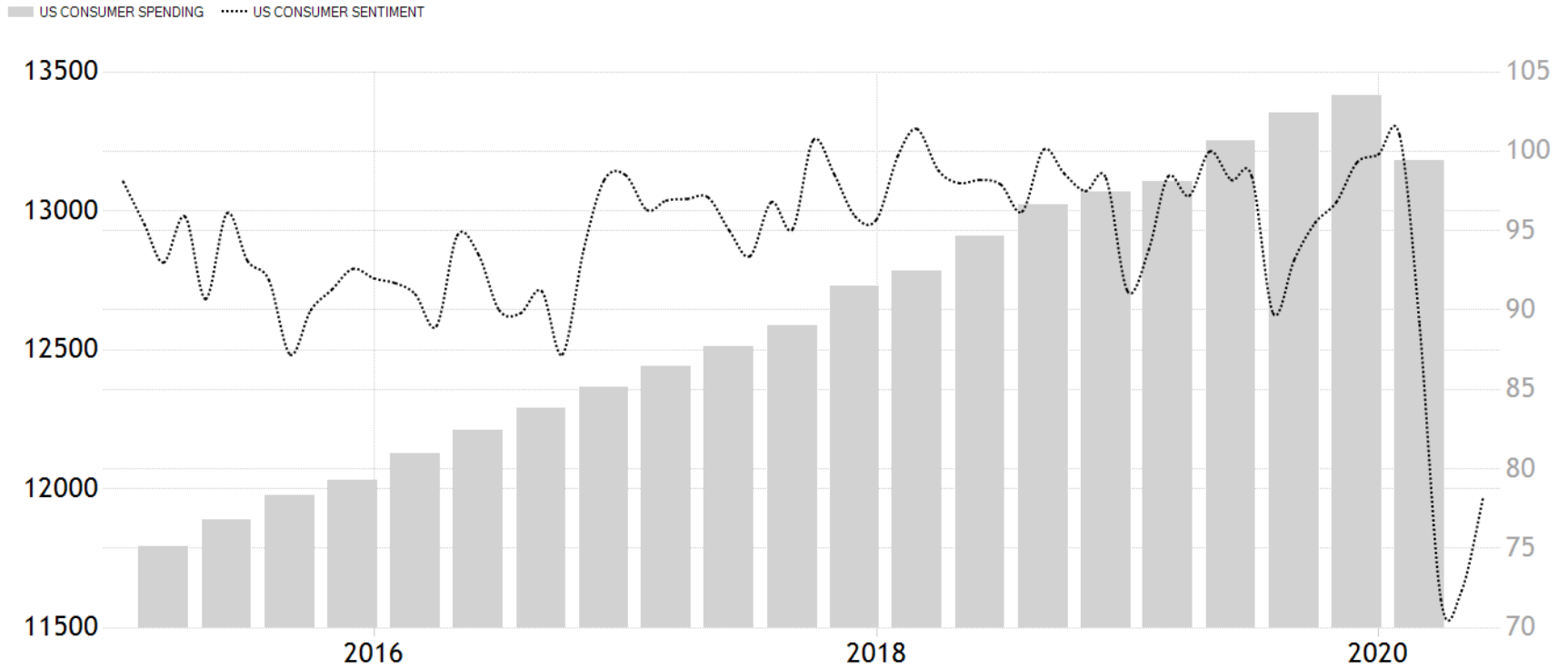
Macro Policy Supportive While Consumers Have Firepower to Resume Consumption



Source: Bureau of Economic Analysis, Congressional Budget Office

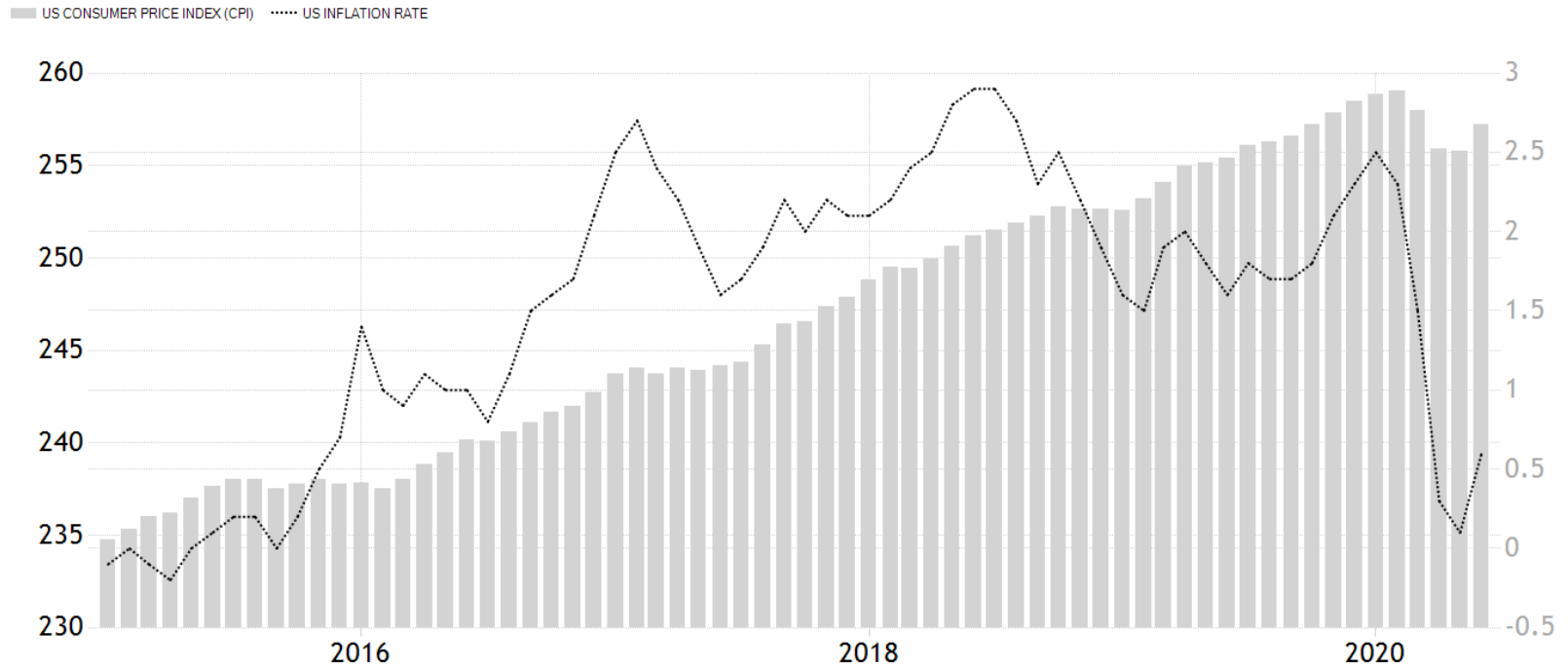
* CBO Projection as of April 24, 2020

Consumer Confidence & Spending Plunge



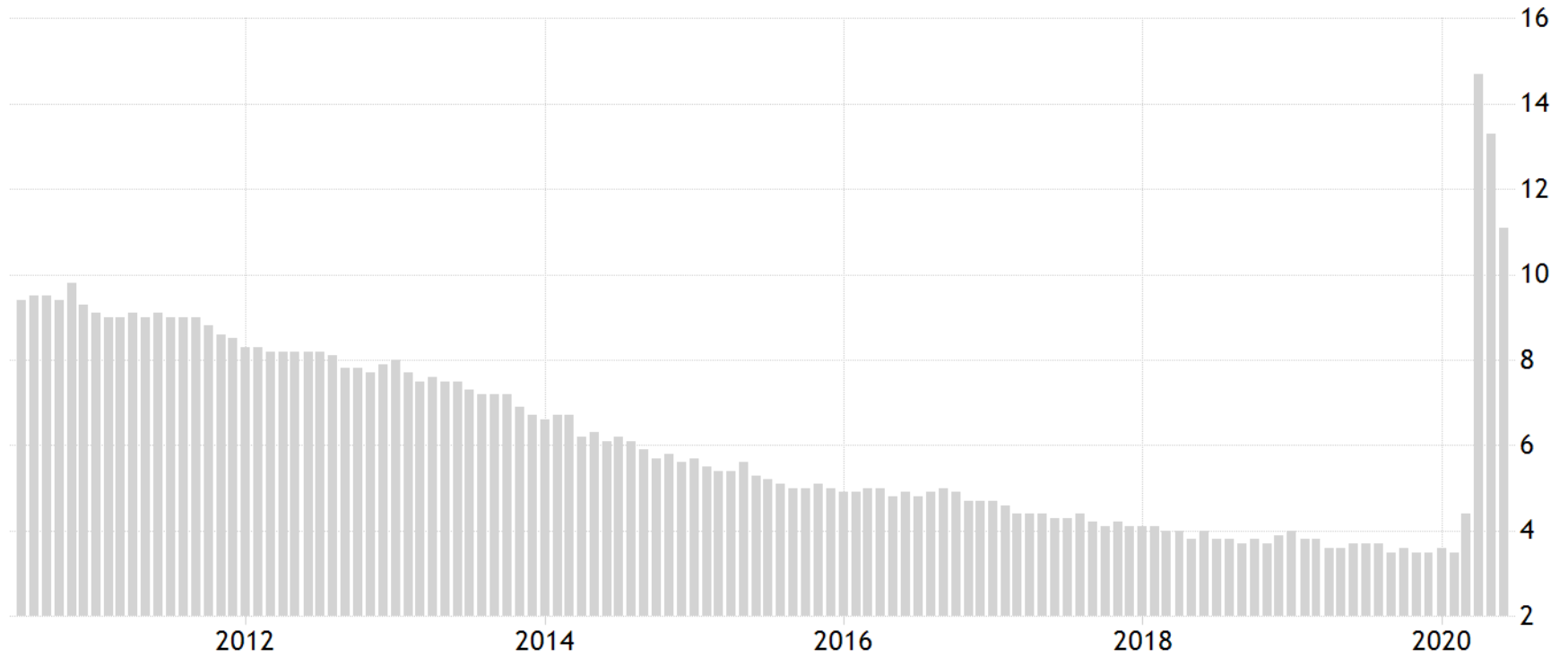
SOURCE: TRADINGECONOMICS.COM

CPI Dips, Inflation Well Below Target



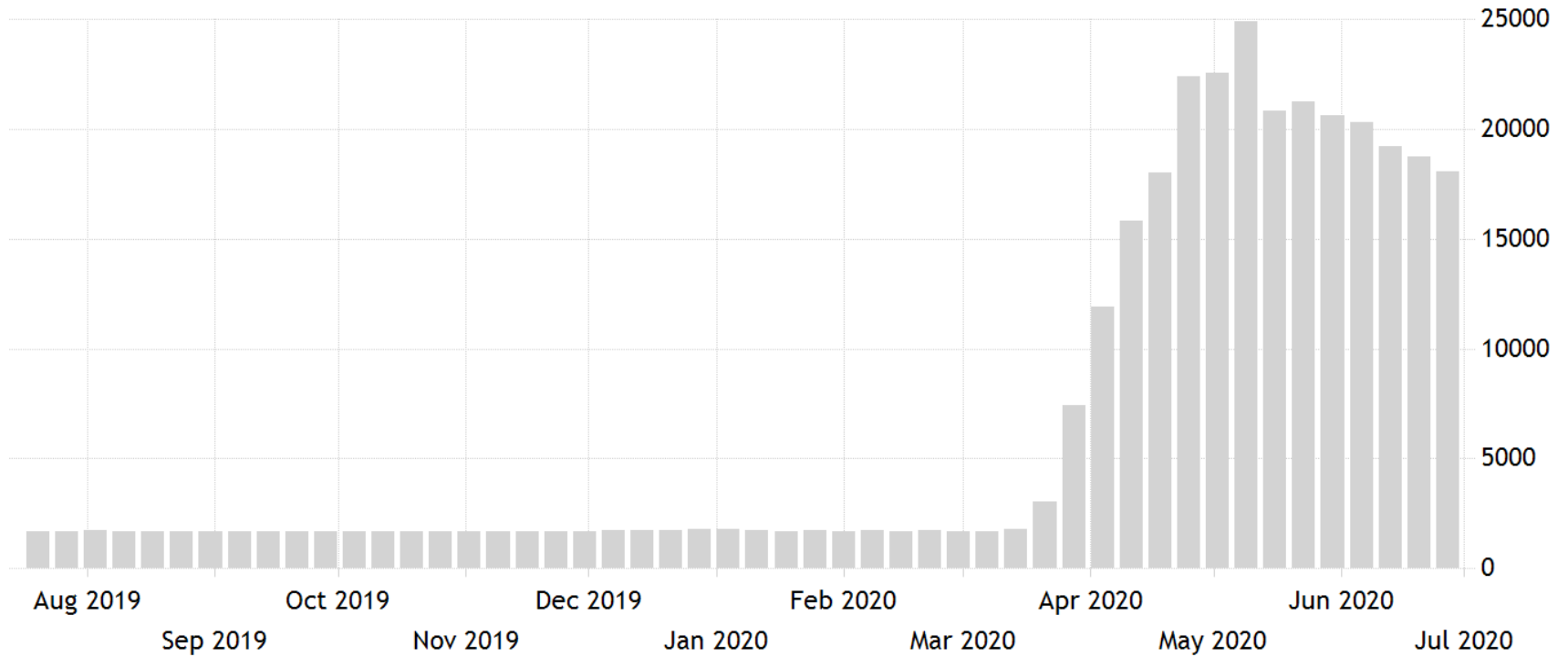
SOURCE: TRADINGECONOMICS.COM

Unemployment Soars, Then Slows Down



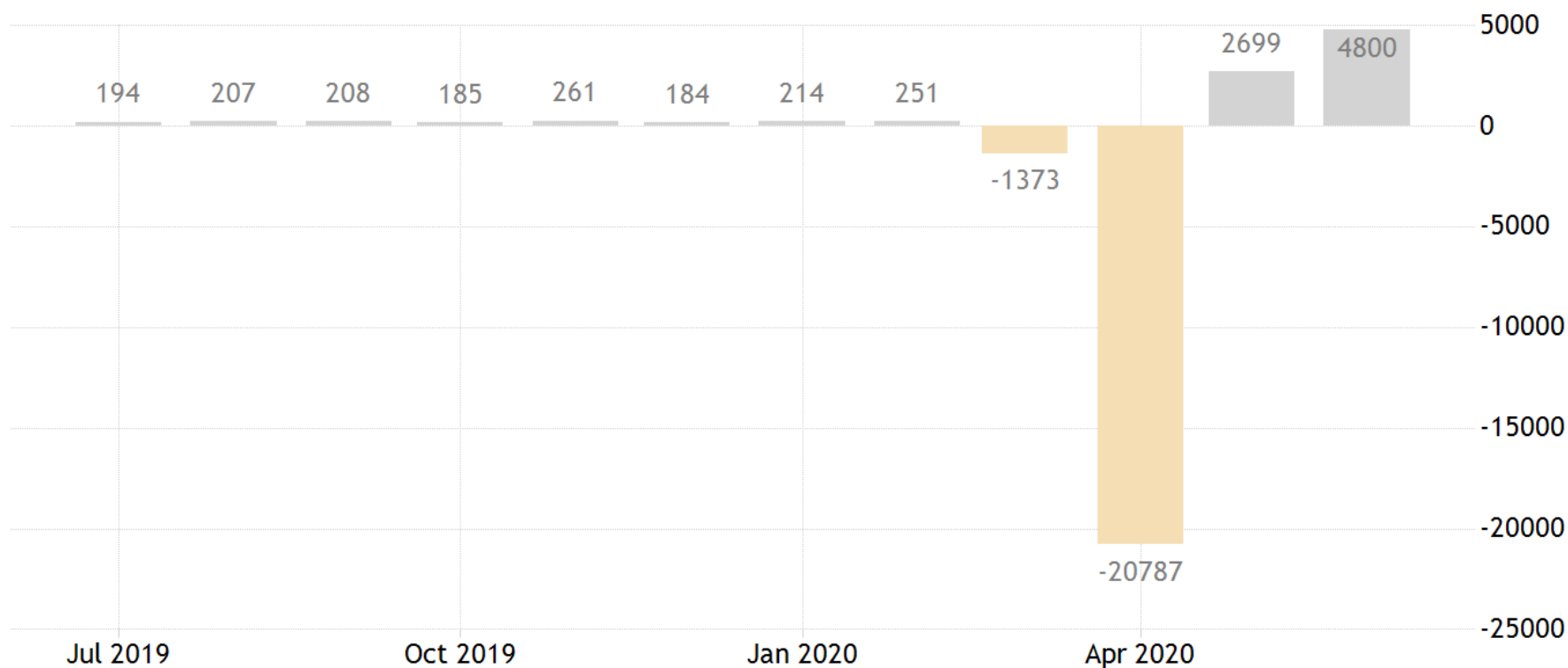
SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | U.S. BUREAU OF LABOR STATISTICS

Continuing Jobless Claims Also Decline



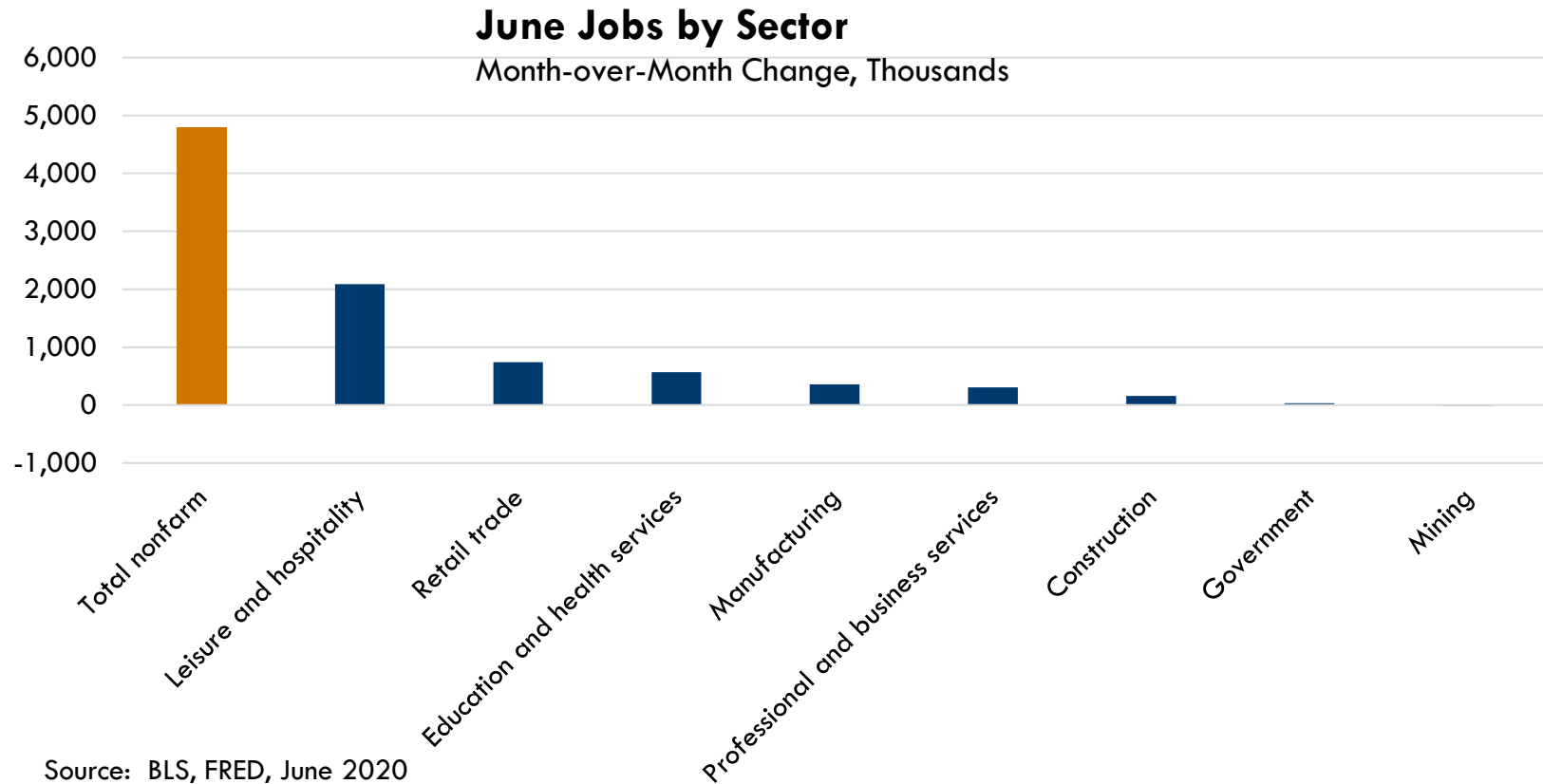
SOURCE: TRADINGECONOMICS.COM | U.S. DEPARTMENT OF LABOR

As Job Creation Rebounds Quickly

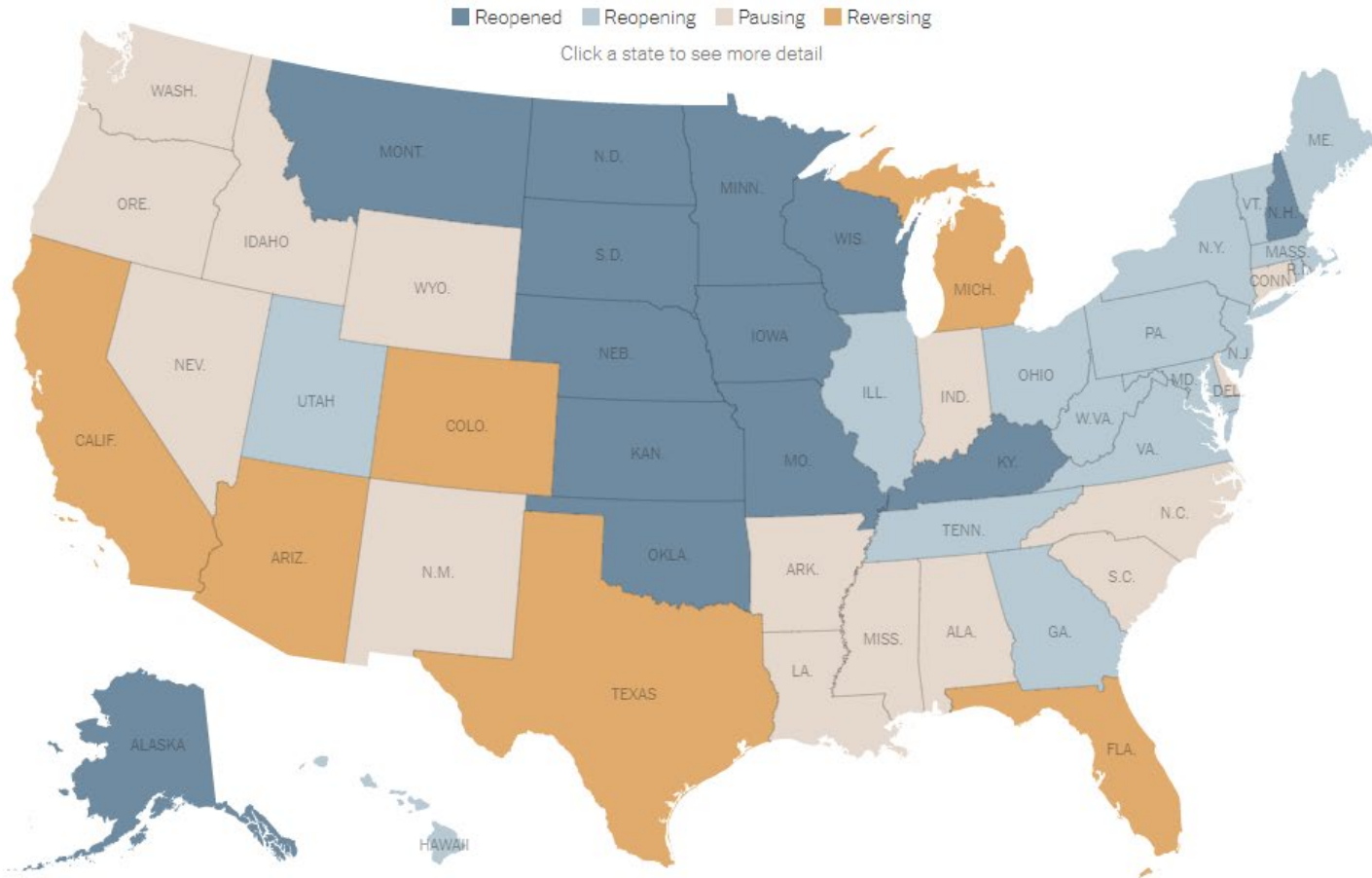


SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Most New Jobs in Hardest-Hit Sectors



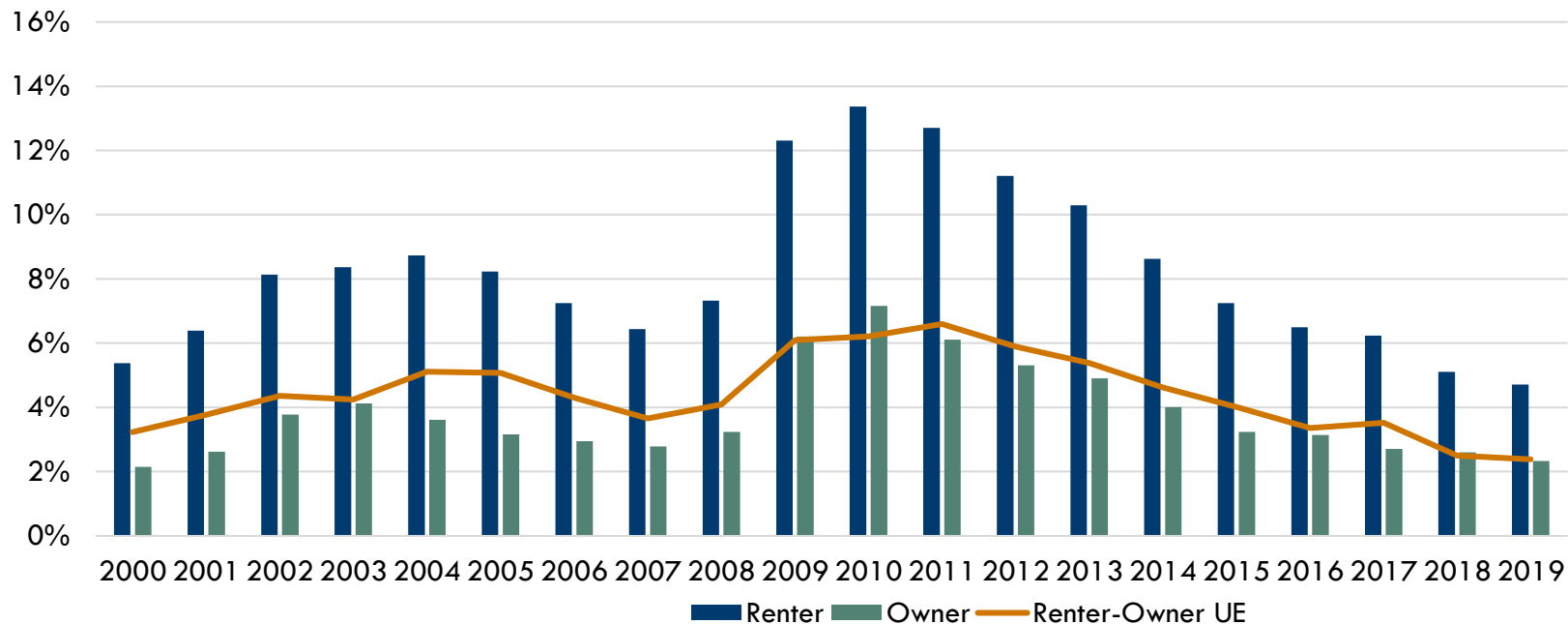
But 40% of Reopenings Delayed or Reversed



Job Losses Heavily Skewed Towards Renters

The Unemployment Difference

Renter-Owner Unemployment Rates, Renter-Owner UE Difference, %

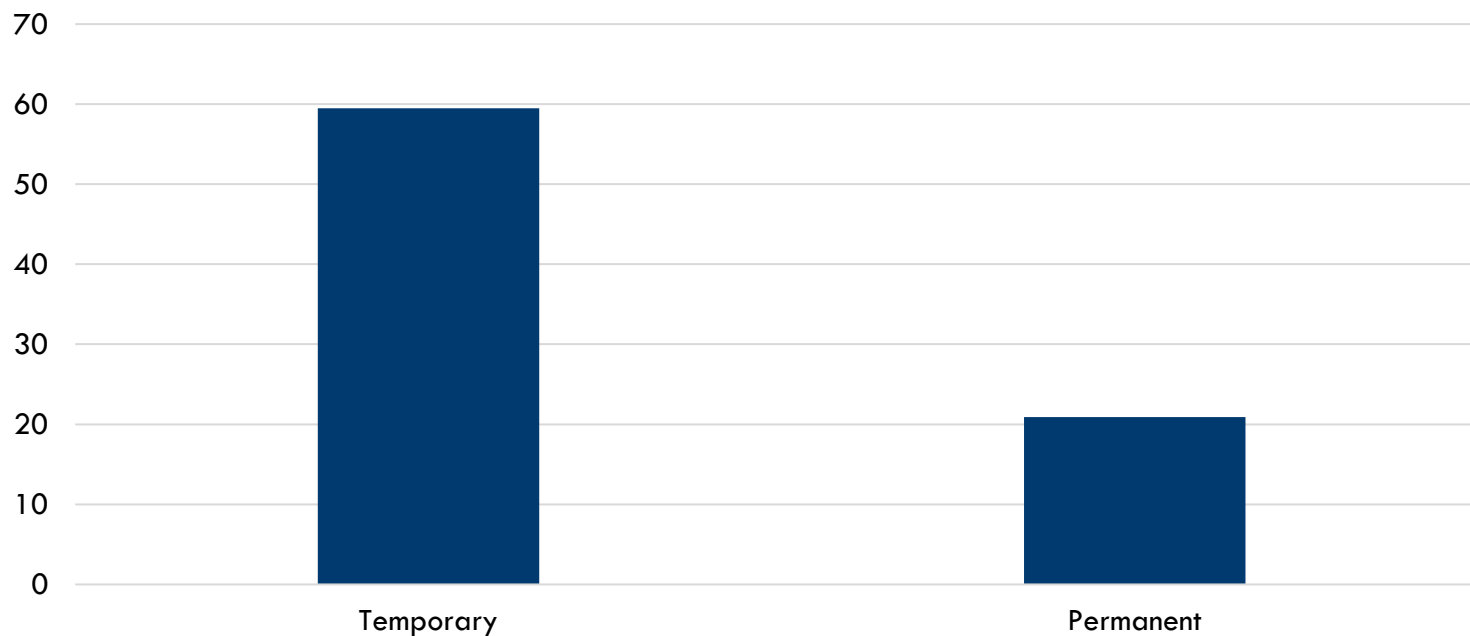


Source: First American Calculations, IPUMS CPS, 2019

And Most are Believed to be Temporary

Most Layoffs Have Been Classified as 'Temporary'

Seasonally Adjusted, %



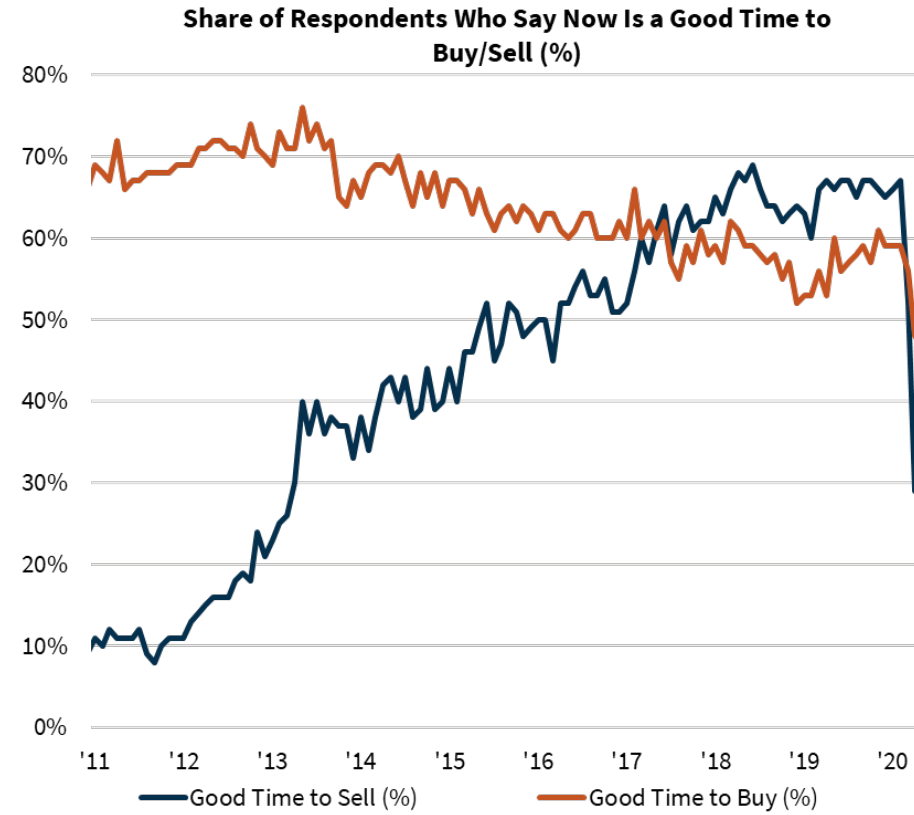
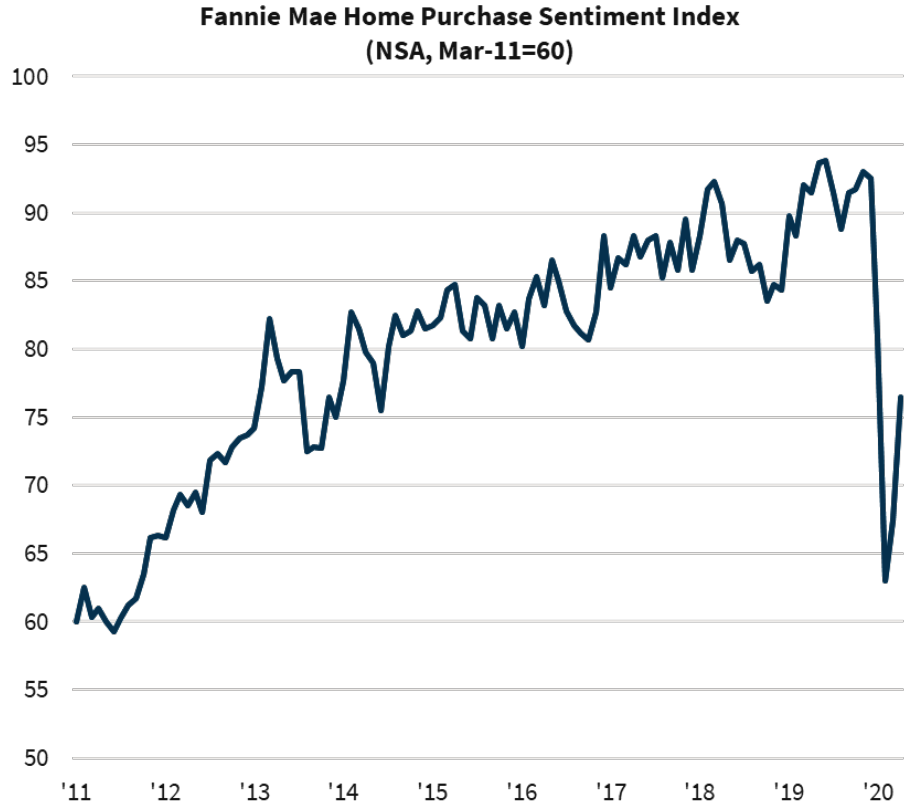
Source: BLS, June 2020

2020 Vision

Impact on the Housing Market

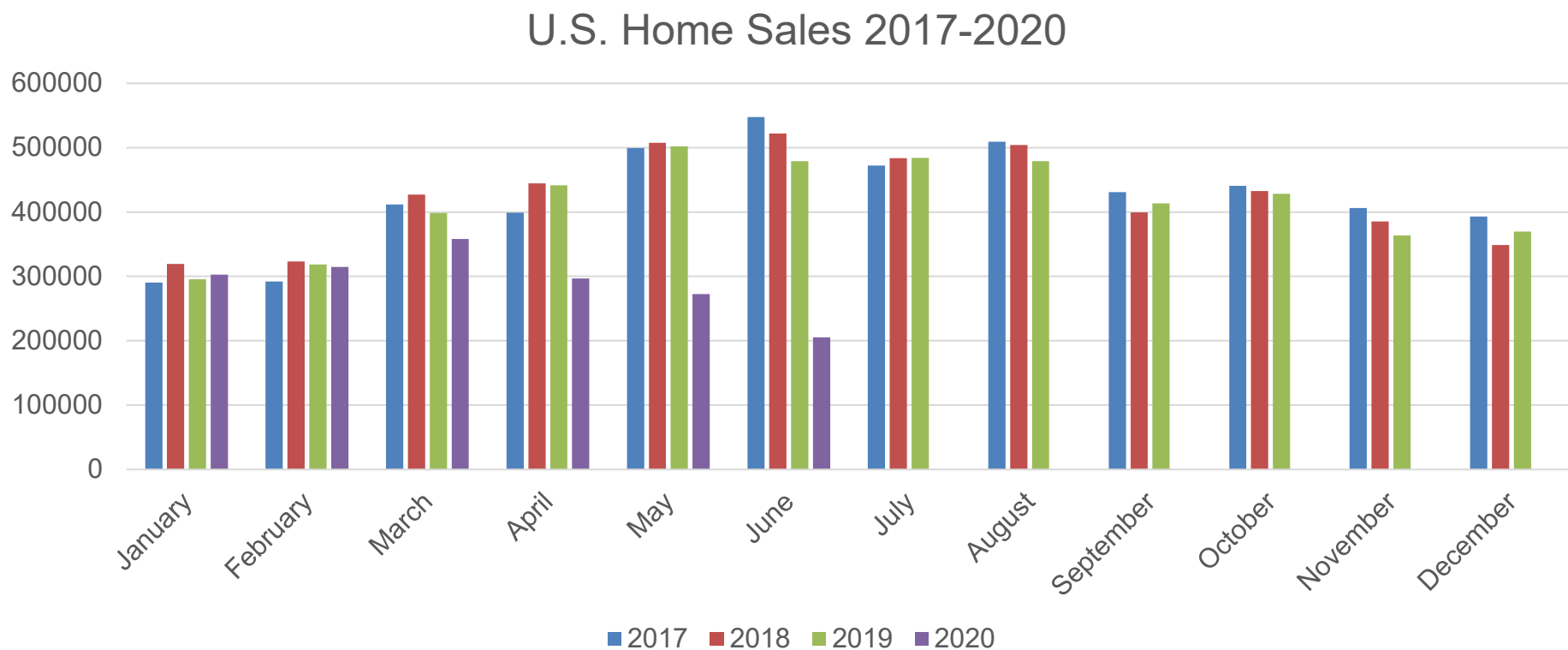
National Housing Survey: Buyer and Seller Sentiment Differ

Decline in Buyer Sentiment Not as Severe as Impact on Seller Sentiment



Source: June 2020 Fannie Mae Home Purchase Sentiment Index®

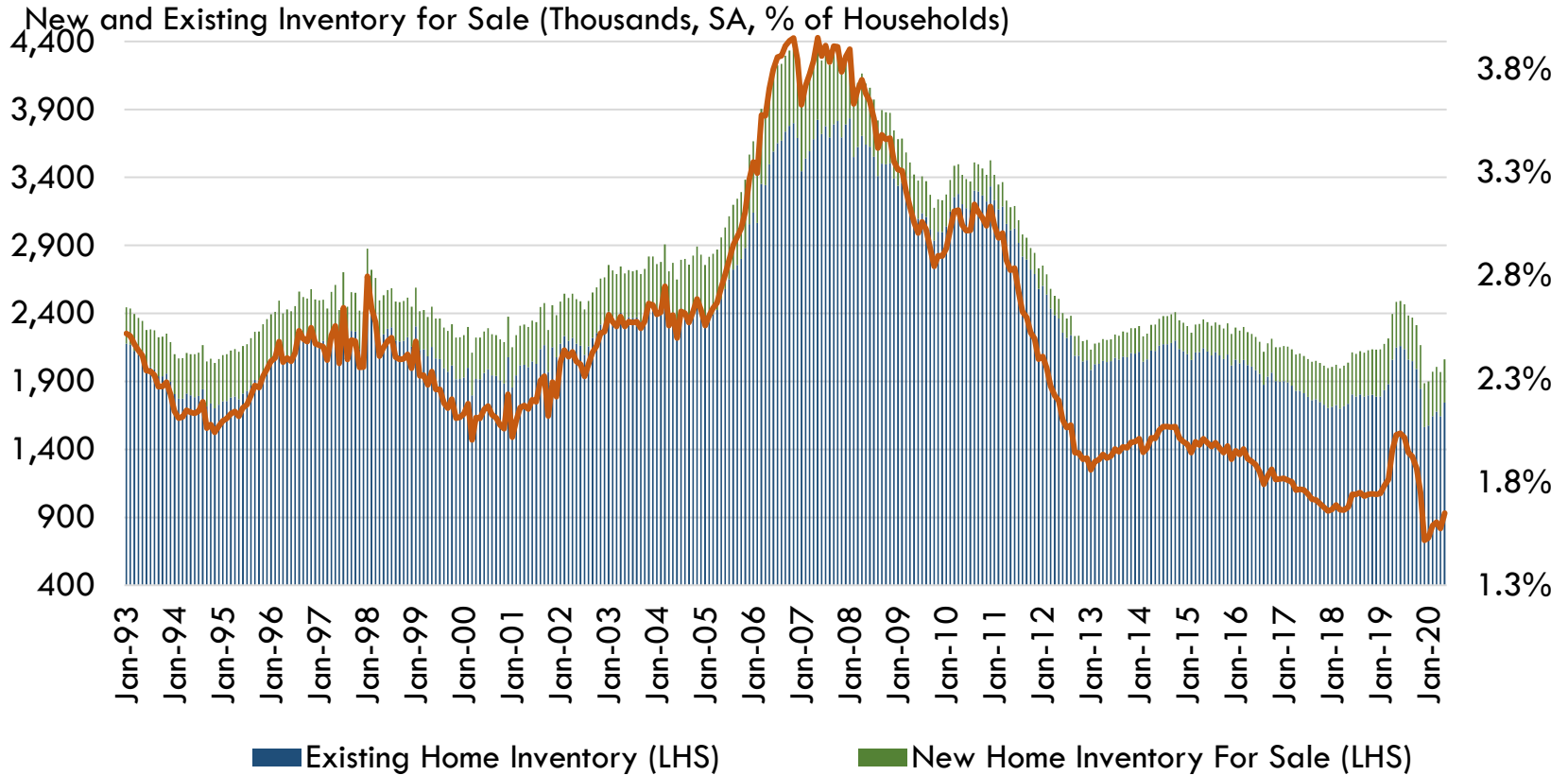
Home Sales Lag Far Behind 2019



Source: First American® DataTree®

Low Inventory Hampers Recovery

Housing Supply At Quarter Century Low



Source: NAR, Census, FRB St. Louis, First American Calculations, May 2020

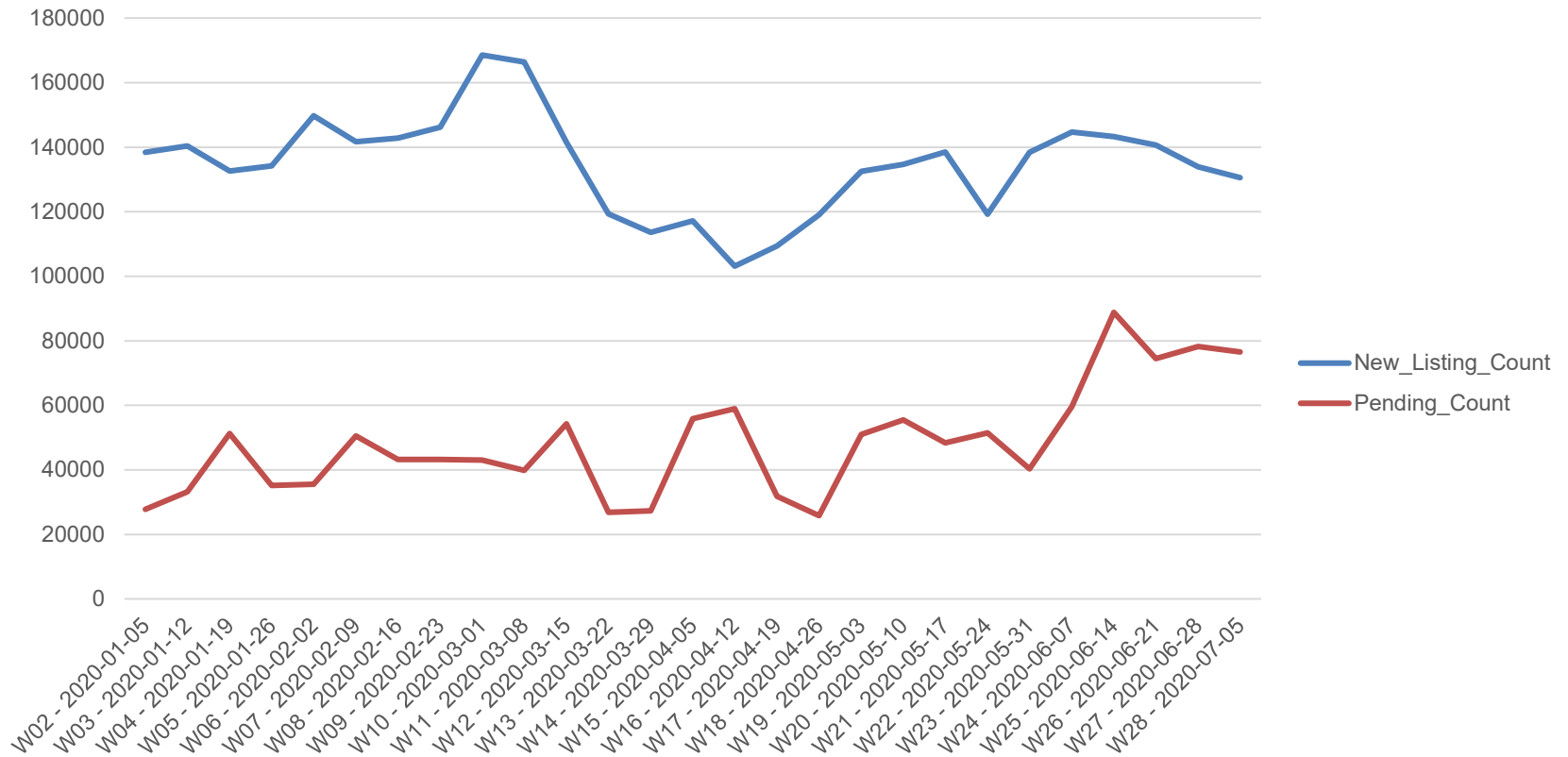
POLLING QUESTION #2

The COVID-19 pandemic effectively shut down home sales during the Spring selling season.

How long will it be until home sales numbers recover, and are at least on par with 2019?

- By the end of 2020
- Sometime during 2021
- 2022 or later

Pending Sales Outpace New Listings

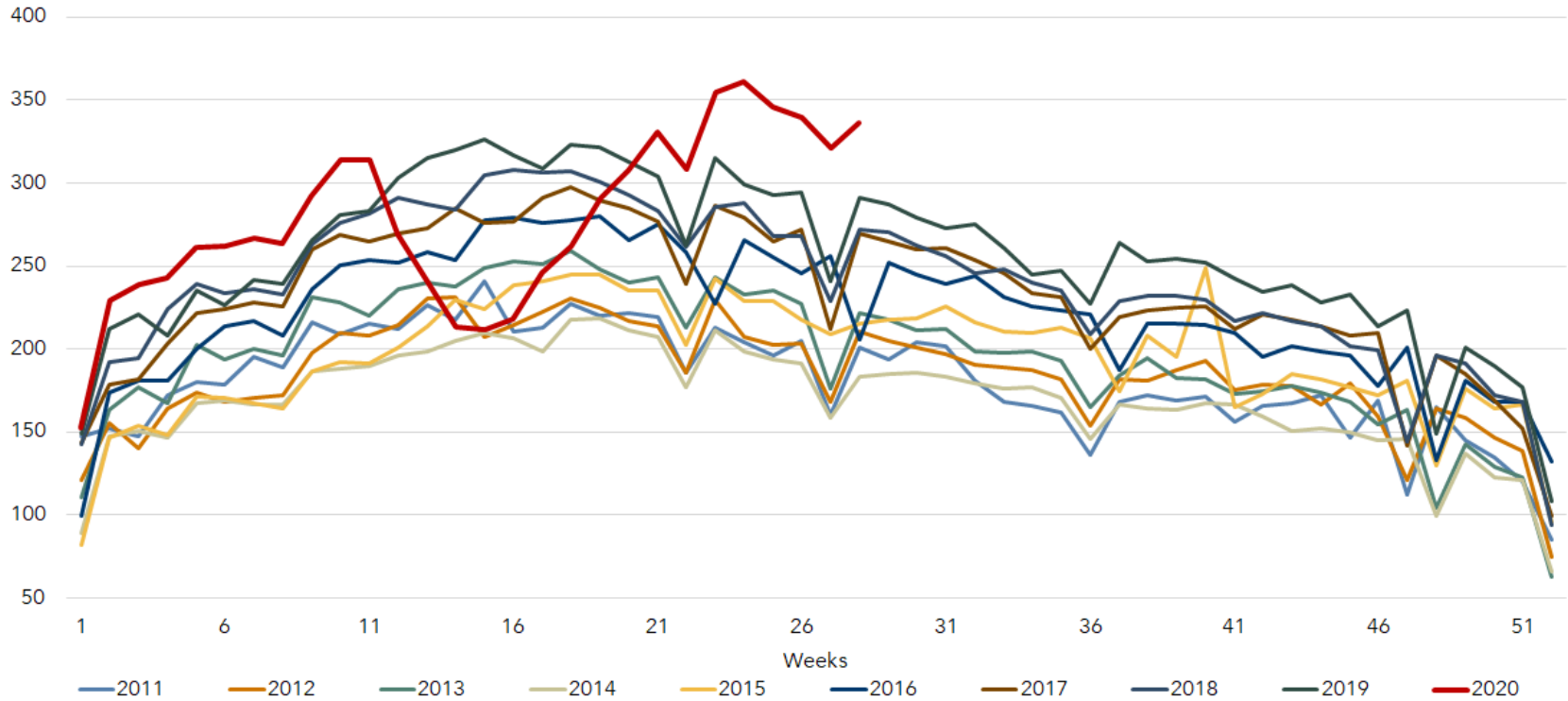


Source: First American® DataTree®

Demand Continues to be Strong

Purchase Apps 15.5% Higher Than One Year Ago

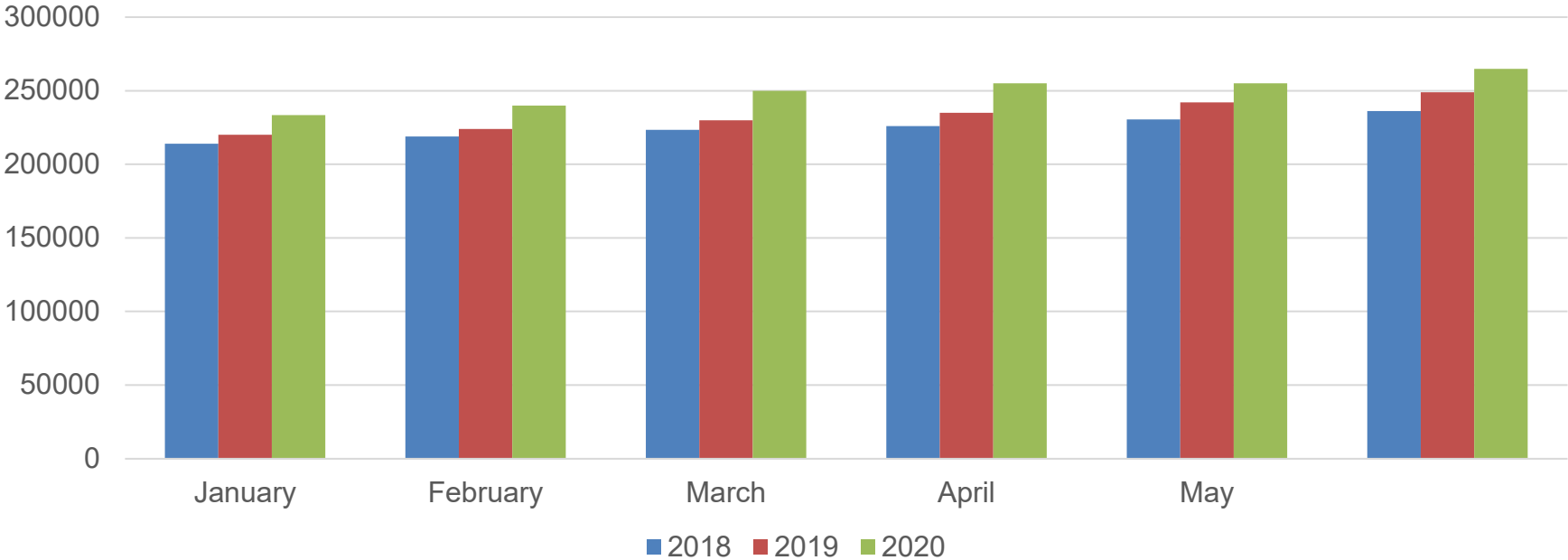
MBA: Volume Index: Mortgage Loan Applications for Purchase (NSA, Mar-16-90=100)



Source: MBA, July 2020

Which Drives Prices Higher

Median Home Sales Prices
2018-2020



Source: First American® DataTree®

Mortgage rates at a record low

Primary Mortgage Market Survey®

U.S. weekly averages as of 07/16/2020

30-Yr FRM
2.98% ▼ 0.05 1-Wk
▼ 0.83 1-Yr
0.7 Fees/Points

15-Yr FRM
2.48% ▼ 0.03 1-Wk
▼ 0.75 1-Yr
7.0 Fees/Points

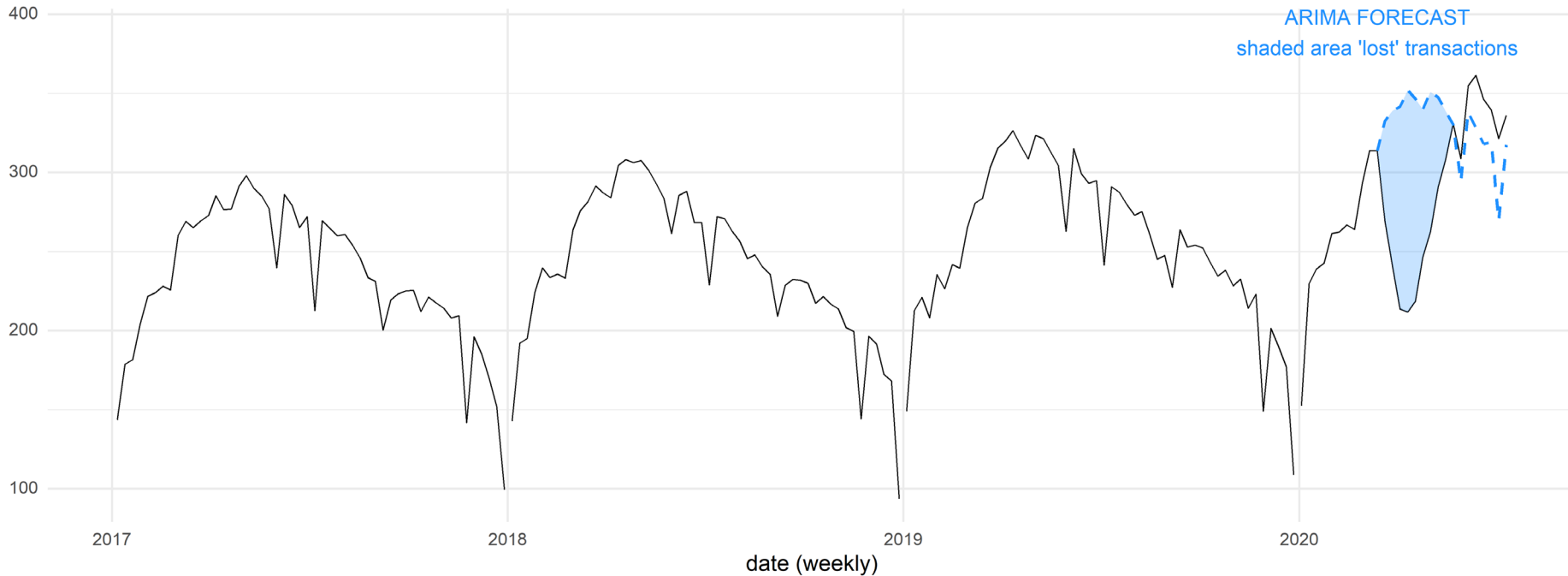
5/1-Yr ARM
3.06% ▲ 0.04 1-Wk
▼ 0.42 1-Yr
0.3 Fees/Points



The housing market makes up for a lost spring

U.S. Mortgage Purchase Activity Rebounds

Purchase Application Index (Mar 16, 1990 =100, not seasonally adjusted) ARIMA fit Jan 1990-Mar 2020



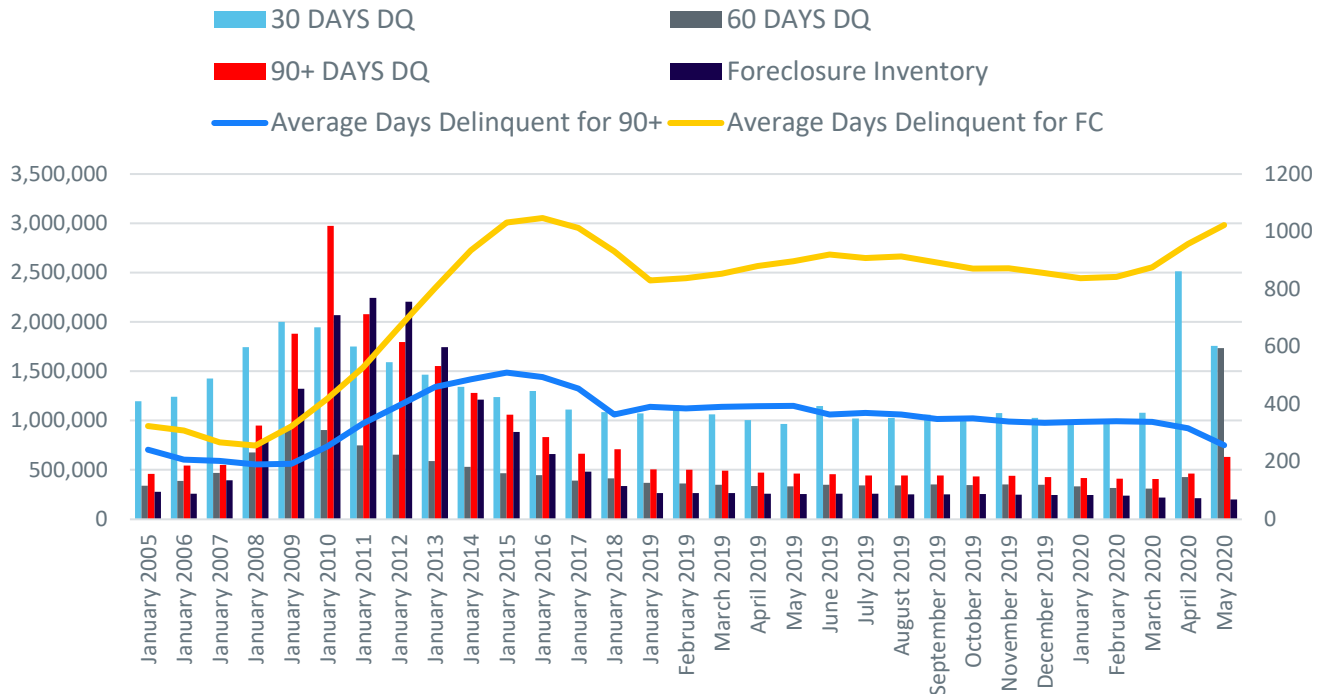
@lenkiefier Source: Mortgage Bankers Association, data through July, 10 2020
Seasonal autoregressive $(1,1,0)(1,1,0)_{52}$

2020 Vision

Will Forbearance = Foreclosure

The delicate dance of delaying distress

- Foreclosure inventory declined in April and May, but average days delinquent spikes close to Great Recession levels
- But 30-day delinquencies spiked above Great Recession levels in April, 60-day delinquencies spiked above Great Recession levels in May and 90-days will likely spike similarly in June

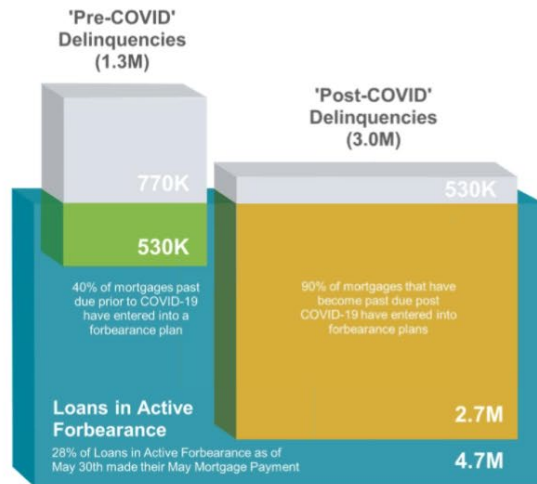


Source: Black Knight

Forbearance usage widespread but not universal

- 4.1 million in forbearance as of July 14, down to lowest level since May (Black Knight)
- 10 percent of post-COVID delinquency NOT in forbearance: ~300,000
- 60 percent of pre-COVID delinquency NOT in forbearance: ~780,000

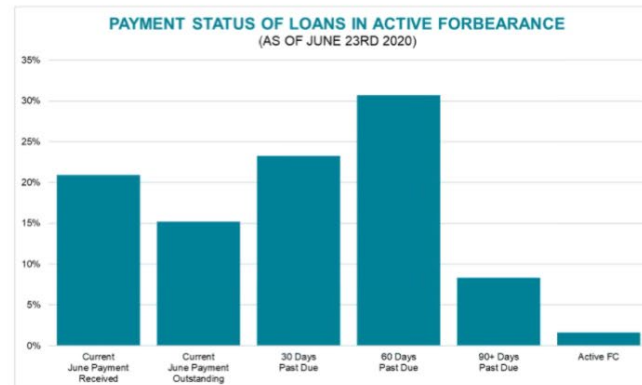
Early disconnect seen between forbearance activity and mortgage payments, more alignment expected in June



- 'Pre-COVID' Delinquencies include loans that are 30+ days past due as of May month-end that became delinquent in February 2020 or prior
- 'Post-COVID' Delinquencies include loans that are 30+ days past due as of May month-end that became delinquent in March 2020 or later

Source: McDash Flash

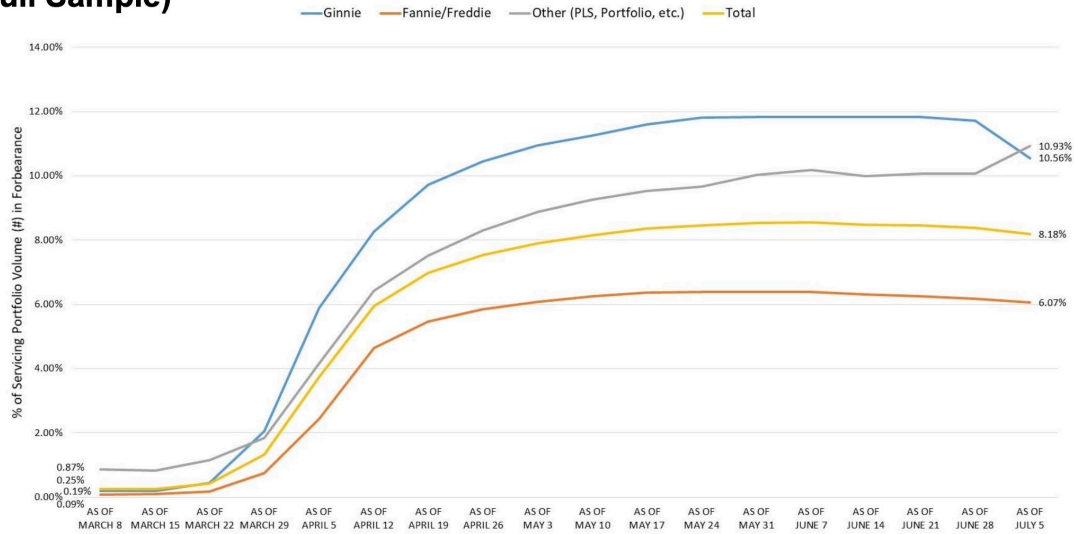
Source: Black Knight



Source: McDash Flash Payment Tracker

Over 8% of Borrowers Still in Forbearance

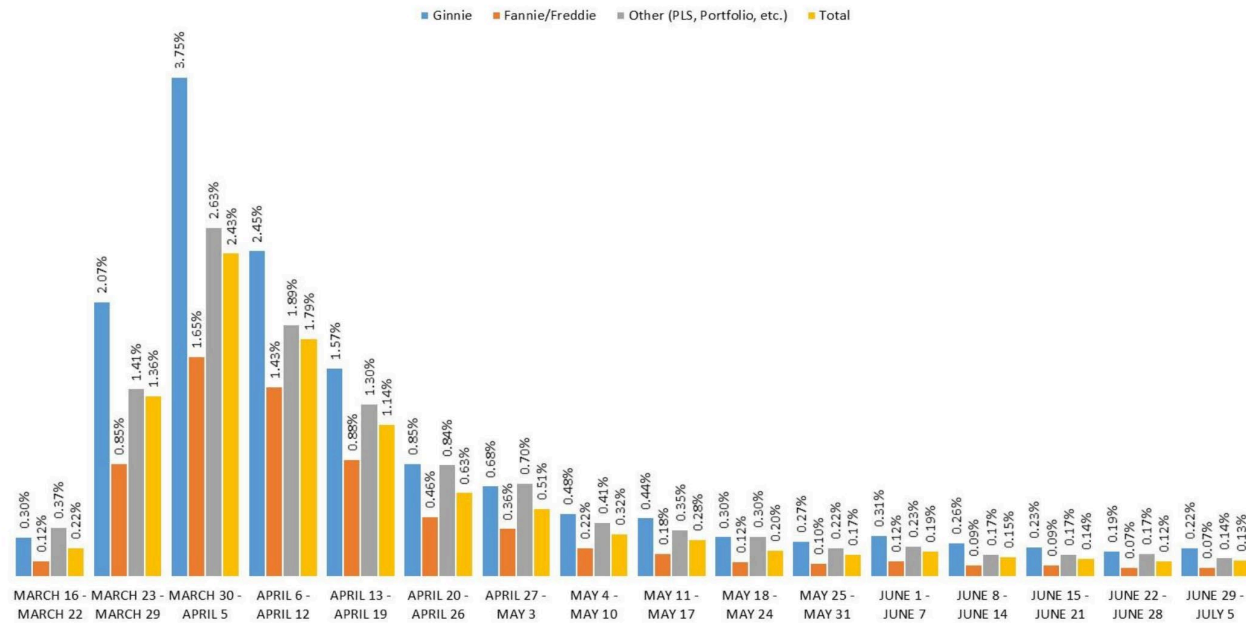
% of Servicing Portfolio Volume in Forbearance by Investor Type over Time (Full Sample)



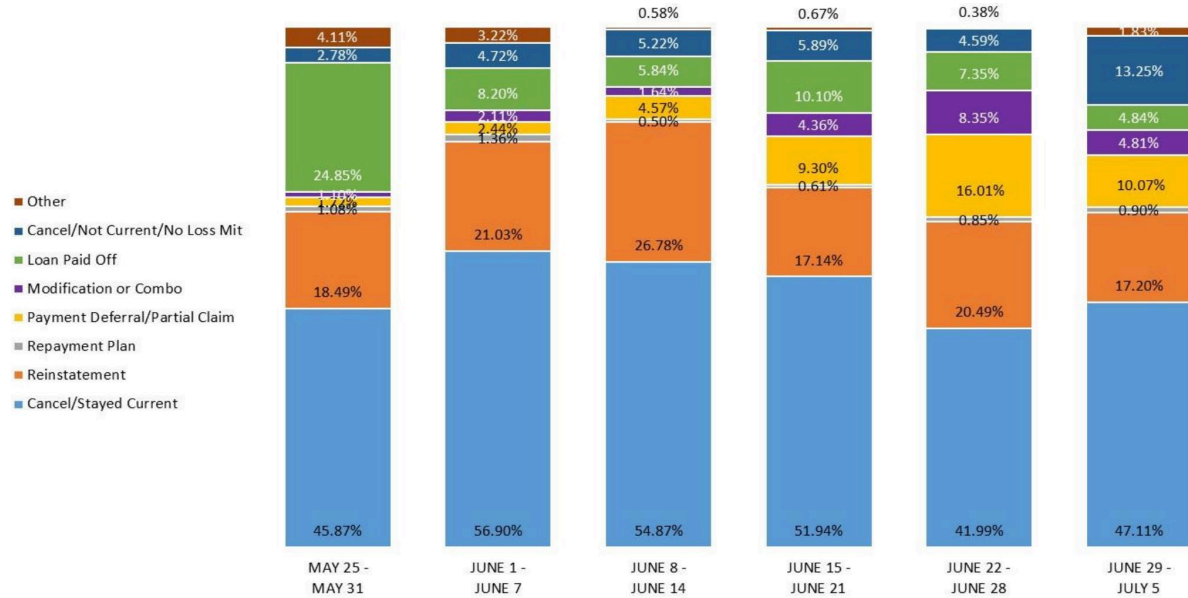
Source: MBA's Weekly Forbearance and Call Volume Survey, as of 7/5/20

But Requests Have Been Declining Since March

Weekly Borrower Forbearance Requests as % of Servicing Volume (#)



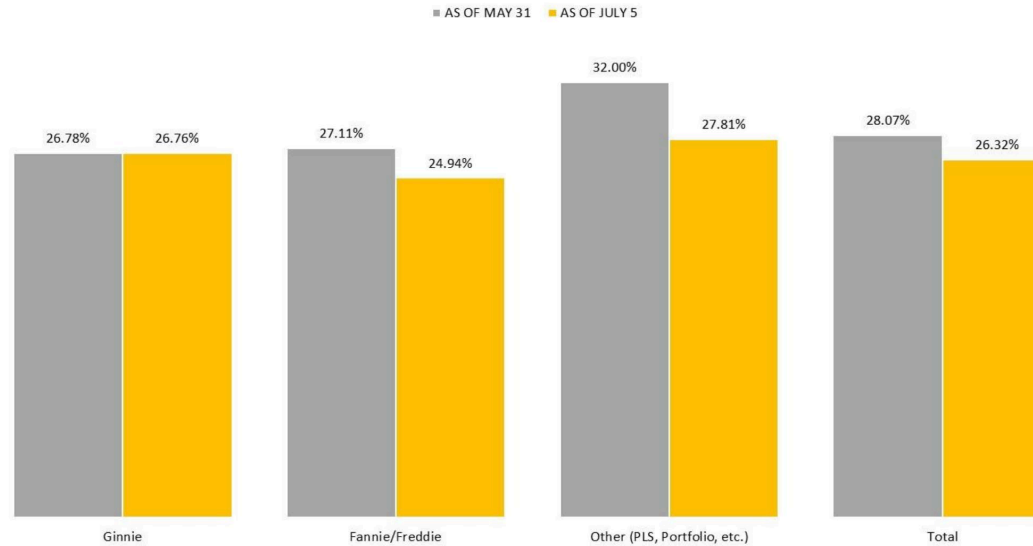
Borrowers are Successfully Exiting the Program



Source: MBA's Weekly Forbearance and Call Volume Survey, as of 7/5/20

And Over 25% of Borrowers in Forbearance are Current

% of Borrowers in Forbearance That Were Current at End of Reporting Period



Source: MBA's Weekly Forbearance and Call Volume Survey, as of 7/5/20

14

MBA[®]

POLLING QUESTION #3

Default activity was at historically low levels prior to the pandemic, but soaring unemployment and record numbers of borrowers in forbearance are likely to lead to a higher percentage of borrowers defaulting on their loans.

Over the next 2-3 years, what do you expect foreclosure levels to do?

- Remain below the historical average of 1%
- Go back up to the historical average of 1%
- Grow to between 2-3%
- Reach or exceed the 2010 peak of 4%

When the foreclosure tide rolls in

BAU Foreclosure Backlog

- 12,000 “business as usual” completed foreclosure auctions (third-party sales and REO) being delayed each month
- Backlog of 60,000 if moratorium ends Aug. 31
- Backlog of 108,000 if moratorium ends Dec. 31

Forbearance-to-Foreclosure Volume

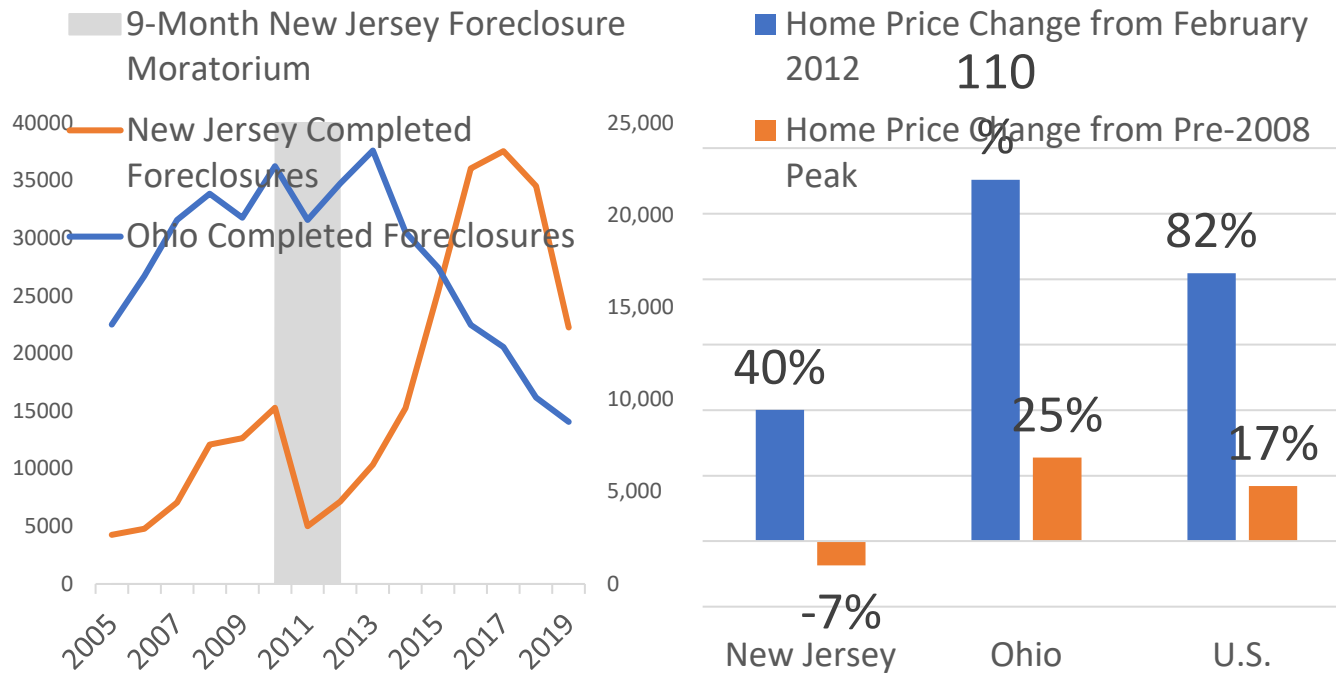
- 1,000,000 loan modifications (20 percent of 5 million peak forbearance)
- 240,000 additional re-defaults within two years based on HAMP performance in last crisis (24% re-default rate after 24 months)
- 450,000 additional redefaults within five years based on HAMP performance in last crisis (45% re-default rate after 60 months)

Two-Year Tally

- 636,000 spread over two-year period (2021 to 2022)
 - 288,000 BAU + 108,000 backlog + 240,000 loan mod failures
 - Our more nuanced model using unemployment rate and home equity as primary variables is predicting between 575,000 and 625,000 in this two-year period
- By comparison there were 1.5 million completed foreclosure auctions in 2007 and 2008 as crisis began ramping up
- By comparison there were 535,000 in 2018 and 2019 combined

Blanket foreclosure moratoriums prolong the pain

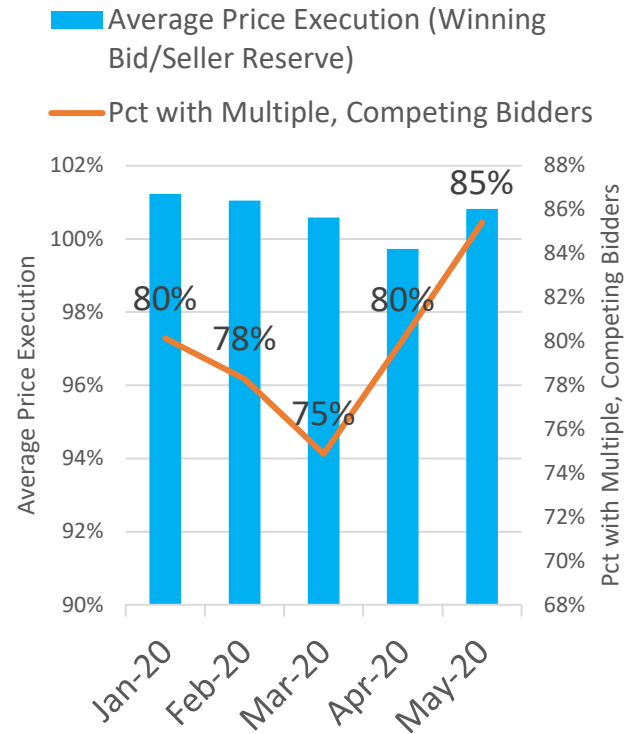
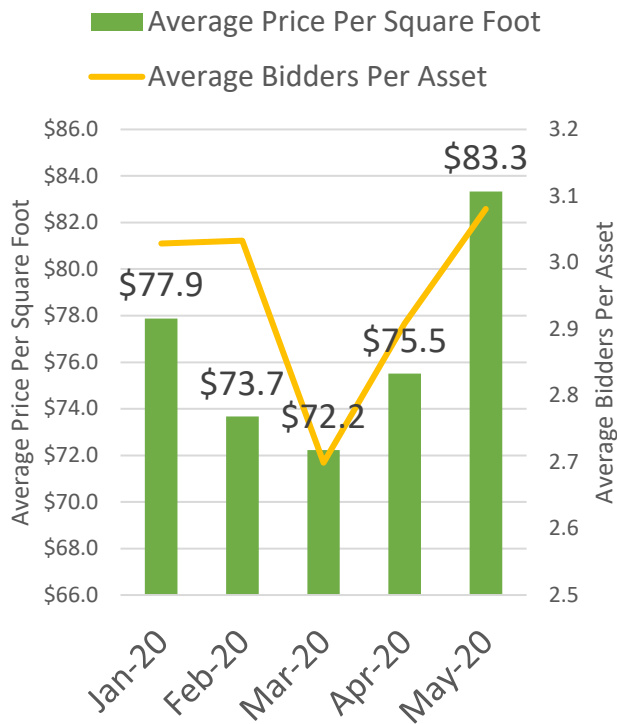
- U.S. foreclosures peaked in 2010, home prices 82% above pre-2008 levels
- Ohio foreclosures peaked in 2013, home prices 110% above pre-2008 levels
- New Jersey foreclosures peaked in 2017, home prices 7 percent below pre-2008 levels



Source: ATTOM Data Solutions

A good time to clear the decks of distress

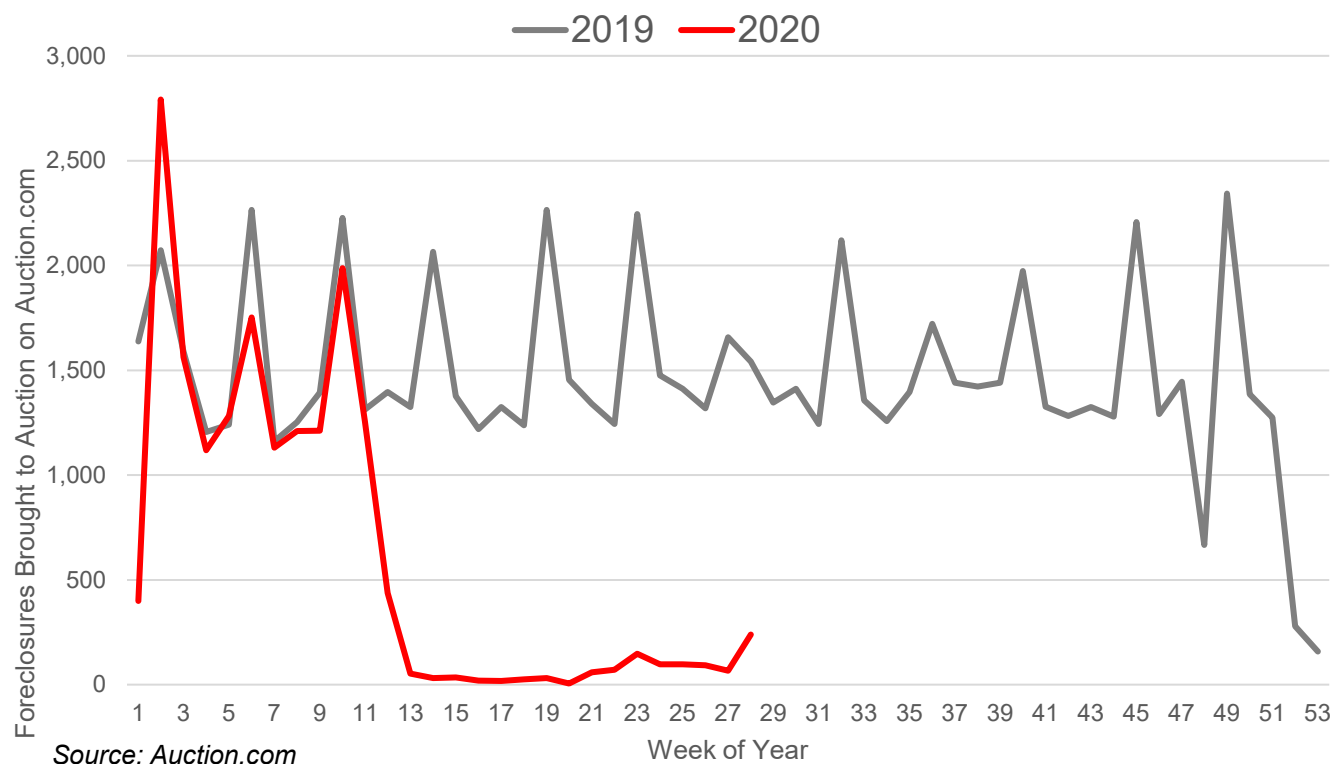
- Share of sales with competing bidders above pre-pandemic and year-ago levels
- Average price per square foot at YTD high and 8 percent above year ago in May



Source: Auction.com

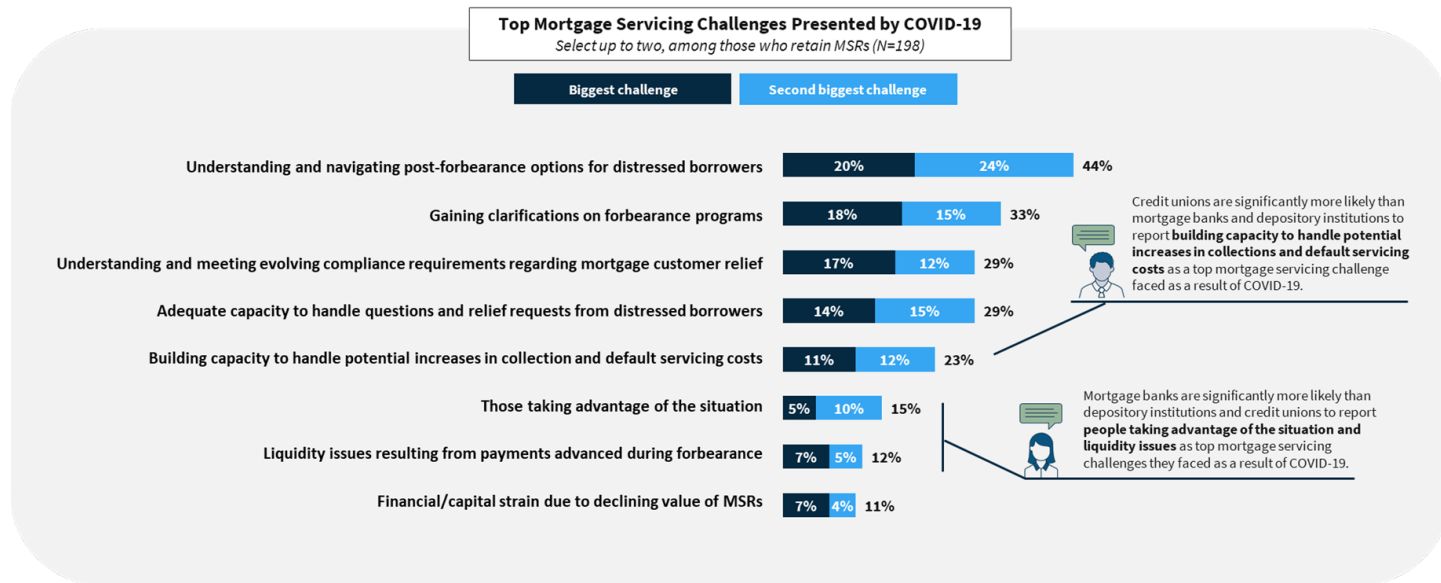
Foreclosure auction heartbeat showing faint signs of life

- 239 brought to auction in week of July 5 highest since week of March 15
- Still only 16 percent of pre-pandemic average of 1,530 brought to auction each week on Auction.com
- Auction.com represents about 50 percent of all foreclosure sales



Top Mortgage Servicing Challenges Presented by COVID-19

For Mortgage Servicers, Forbearance-Related Issues Were at the Forefront



Source: COVID-19 Challenges and Impact on Lenders' Business Priorities Special Topics Survey

WEBINAR WRAP-UP: QUESTIONS & ANSWERS

If you did not submit a question during your registration process, you may now use your GoToWebinar toolbox on the right side of your screen to submit a question directly to our panelists. Note: not all questions will be answered during the live Q&A. Should our panelists not be able to address your question, you may reach out to them directly or they will attempt to contact you with further information.

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Ethics at the Movies

Wednesday, August 12, 2020
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Cyber Security and Financial Privacy

Thursday, August 13, 2020
1-2:15 PM Central Time

Foreclosure Discovery and Trial Practice

Friday, August 14, 2020
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Dealing with Deceased Borrowers & Heirs

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Bankruptcy Hot Topics

Tuesday, August 18, 2020
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Foreclosure Intersect 2020

November 18, 2020 – Marriott Dallas Las Colinas
Irving, TX

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WILLPOWER 2021

April 29-30, 2021 – The Ritz-Carlton Dallas
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Foreclosure Intersect 2021

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Irving, TX

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ANSWERS 2023

July 16-19, 2023 – Park Hyatt Beaver Creek Resort, Beaver
Creek, CO

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Bankruptcy Intersect 2021

March 4, 2021 – Marriott Dallas Las Colinas
Irving, TX

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July 18-21, 2021 – Hyatt Regency Coconut Point Resort
Bonita Springs, FL

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ANSWERS 2022

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Pueblo, NM

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WEBINAR CONCLUSION

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SPEAKER BIO

MODERATOR



Rick Sharga

President & CEO
CJ Patrick Company
rick@cjpatrick.com

Rick is the founder of CJ Patrick Company, a consulting firm that helps real estate, financial services, and technology companies develop a position of competitive advantage and use it to drive business strategy, marketing, and sales.

One of the country's most frequently-quoted sources on real estate, mortgage and foreclosure trends, Rick has appeared regularly over the past 15 years on CNBC, the CBS Evening News, NBC Nightly News, CNN, ABC World News, FOX, Bloomberg and NPR. Rick is a founding member of the Five Star National Mortgage Servicing Association, a member of the Board of Directors of REOMAC, and was included in the *Inman News* Inman 100, an annual list of the most influential leaders in real estate in both 2013 and 2014.

An accomplished executive with over 25 years of experience in consumer and B2B marketing, Rick was formerly an Executive Vice President for Carrington Mortgage Holdings, and Chief Marketing Officer of the company's Vylla business unit. Rick was previously the Chief Marketing Officer of Ten-X, the leading online real estate marketplace, where he started in July of 2013 as EVP of the company's Auction.com business unit.

Prior to that, Rick spent eight years at RealtyTrac, where as SVP he was responsible for marketing, business development and data operations, and won the Stevie® Award for National Marketing Executive of the Year.

SPEAKER BIO

SPEAKER



Leonard Kiefer

Deputy Chief Economist

Freddie Mac

leonard_kiefer@freddiemac.com

Leonard (Len) Kiefer is an economist who helps people understand what's going on in the economy, housing, mortgage markets. Len joined Freddie Mac in 2009, and has served as Deputy Chief Economist since December 2012. Len is responsible for primary and secondary mortgage market analysis and research, macroeconomic analysis and forecasting.

Prior to joining Freddie Mac, Len was an assistant professor at Texas Tech University in Lubbock, Texas where he conducted research on macroeconomics and monetary policy. He has also taught economics at The Ohio State University and finance at George Mason University.

Kiefer holds a B.A. in economics from the University of Kentucky, and a PhD from The Ohio State University. Len is a member of the American Real Estate and Urban Economics Association (AREUEA) and the National Association for Business Economics (NABE).



SPEAKER BIO

SPEAKER



Dr. Mark Palim

*Vice President &
Deputy Chief Economist*
Fannie Mae

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Dr. Mark Palim is Vice President and Deputy Chief Economist at Fannie Mae. He is responsible for overseeing the Economic and Strategic Research Group's forecasting functions and manages multi-disciplinary partnerships across the company to address specific business issues facing Fannie Mae. Palim is a key spokesperson on economic trends and a frequent speaker at national mortgage finance and housing industry events.

Prior to working at Fannie Mae, Palim was an economic consultant at PricewaterhouseCoopers and LECG. His practice focused on applying economic and financial theory to a variety of business disputes and policy questions. He worked as a consulting and testifying expert in antitrust cases and disputes in the financial services industry. In addition, Palim led a team of 75 adjudicators charged with valuing claims for the Department of Justice and the Special Master administering the Federal September 11th Victim Compensation Fund.

Palim was first involved with economic forecasting and mortgage securities in 1988 when he was a portfolio manager and reported to the Chief Economist at Mercantile Safe Deposit and Trust Company. Subsequently, he continued his work on macroeconomic and policy issues as a staff economist for the National Association of Federal Credit Unions (NAFCU).

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SPEAKER BIO

SPEAKER



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Daren's reports and analysis have been cited by thousands of media outlets — including all the major news networks and leading publications such as *The Wall Street Journal*, *The New York Times* and *USA TODAY*. Daren has been quoted in hundreds of publications and has appeared on many national network broadcasts, including CBS, ABC, CNN, CNBC, FOX Business and Bloomberg.

