Attendee Questions

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Select the ? to type your question to our presenters
ALFN Webinar Presenters

**MODERATOR**
Randy Miller, Esq.
President/CEO
Randall S. Miller & Associates
rmiller@rsmalaw.com

**SPEAKER**
Rick Sharga
Executive Vice President
RealtyTrac
rick.sharga@realtytrac.com

**SPEAKER**
Daren Blomquist
VP of Market Economics
Auction.com
DBlomquist@auction.com

**SPEAKER**
William Emmons, PhD
Assistant Vice President & Economist
Federal Reserve Bank of St. Louis
william.r.emmons@stls.frb.org

PRACTITIONERS. EXPERTS. ALFN WEBINAR PRESENTERS.
Randy Miller, Esq.

President/CEO
Randall S. Miller & Associates
rmiller@rsmalaw.com
What do you expect the 30-year mortgage rate to be in 6 months (note: the Nov. 19 Freddie Mac survey rate was 2.72%)?

a. Above 3%
b. Between 2.75% and 3%
c. Between 2.5% and 2.75%
d. Below 2.5%

There is no correct answer
William Emmons, PhD
Assistant Vice President & Economist
Federal Reserve Bank of St. Louis
william.r.emmons@stls.frb.org
The Economy and the Fed

Is it still a “V-shaped recovery”?

• The economy is growing but slowing.

• A resurgence in virus spread and lack of federal income support jeopardize the recovery while we deploy the vaccine.

The Fed: Out of ammunition?

• Monetary policy is “amped up to 11” already.

• Fed credit-market policies not adding much because markets are OK.

A resurgence in virus spread and failure to provide a federal income-support package could push us into a double-dip recession in 2021.
2020 Economy Will Be Worst Year Since 1946

Fed projects 3.5% decline in 2020
CBO projects - 5.1%
IMF projects - 4.3%

Sources: BEA, HISTSTAT/Haver
The Good News: Unemployment is Dropping Fast

Unemployment Rate

Source: Bureau of Labor Statistics/Haver Analytics
Return to Pre-COVID Unemployment in early 2021?

Source: Bureau of Labor Statistics/Haver Analytics
The Bad News: What Looked Like A V-Shaped Recovery…
… Actually Slowed During Summer and Fall

Monthly Nonfarm Payroll Employment

Average level in 2019 equals 100

Source: Bureau of Labor Statistics/Haver Analytics
A Double-Dip Recession is Possible before Everyone is Vaccinated

Monthly Nonfarm Payroll Employment

Index levels equal 100 in 2019

Average level in 2019 equals 100

Source: Bureau of Labor Statistics/Haver Analytics
Consumer Spending Was Boosted by Stimulus

Real Personal Consumption Expenditures

Average level in 2019 equals 100

Source: Bureau of Economic Analysis/Haver Analytics
Consumer Spending Also Looked Like A “V”

Real Personal Consumption Expenditures

Index levels equal 100 in 2019

Average level in 2019 equals 100

Source: Bureau of Economic Analysis/Haver Analytics
But Federal Income Support Faded Away

Real Personal Consumption Expenditures

Index levels equal 100 in 2019

Average level in 2019 equals 100

Source: Bureau of Economic Analysis/Haver Analytics
Without New Fiscal Package and Control of COVID, Spending May Stall

Real Personal Consumption Expenditures

Index levels equal 100 in 2019

Average level in 2019 equals 100

Source: Bureau of Economic Analysis/Haver Analytics
What More Can Monetary Policy Do?

Fed-Funds Target Rate
Percent (left scale)
Federal Reserve Securities Holdings
Millions of dollars (right scale)

Sources: FRB, FRBNY/Haver
Fed Credit-Market Facilities Are Doing Little; Markets Don’t Need Them

Chart shows Federal Reserve Bank assets excluding:
- Securities held outright
- Repurchase agreements
- Central-bank liquidity swaps

Source: Federal Reserve Board
COVID Remains Biggest Risk: Deaths Could Exceed 300,000 by Year-End

Deaths from COVID-19 Through Nov. 30, 2020: 268,023

In Sum: The Fed is doing what it can but that isn’t enough

- What we thought was a “V-shaped recovery” is fading fast.

- Large-scale fiscal stimulus is waning.

- COVID is surging again.

- The Fed has done about everything it can do.

- If we don’t get better control of COVID and there is not a second federal income-support package, we’re at risk of a double-dip recession in early 2021.
Polling Question

Are you or your clients processing foreclosures on loans that are not specifically covered by the CARES Act or other moratoria?

a. Yes
b. No
c. Yes, but only vacant/abandoned properties
Rick Sharga

*Executive Vice President*
RealtyTrac
rick.sharga@realtytrac.com
The U.S. Economy and Commercial Real Estate

November 19, 2020
The Housing Market
Existing Home Sales Surpass 2019 Sales

Existing Home Sales, 2019 and 2020, SAAR (000s)

Existing Home Sales (000s)

Jan 2019: 5,000
Feb 2019: 5,500
Mar 2019: 6,000
Apr 2019: 5,500
May 2019: 6,000
Jun 2019: 5,500
Jul 2019: 6,000
Aug 2019: 5,500
Sep 2019: 6,000
Oct 2019: 5,500
Nov 2019: 6,000
Dec 2019: 5,500

Jan 2020: 6,000
Feb 2020: 6,500
Mar 2020: 7,000
Apr 2020: 6,500
May 2020: 7,000
Jun 2020: 6,500
Jul 2020: 7,000
Aug 2020: 6,500
Sep 2020: 7,000
Oct 2020: 6,500
Nov 2020: 7,000
Dec 2020: 6,500

http://www.calculatedriskblog.com/
Despite Historically Low Inventory
But Demand Remains Strong

Purchase Apps 25.7% Higher Than One Year Ago
MBE: Volume Index Mortgage Loan Applications for Purchase (NSA, Mar 16-90=100)

Source: MBA, Nov. 2020
Driving Prices to Record Highs

Purchase Only U.S. House Price Index

Latest HPI Data
Nominal: 1.0% MoM, 6.4% YoY
Real*: 0.3% MoM, 6.1% YoY

The index is at both its nominal peak and real peak.

*Real (inflation-adjusted) series uses the seasonally adjusted Consumer Price Index "All Items Less Shelter"

Source: US. Federal Housing Finance Agency
But Low Mortgage Rates Help Offset Costs

### Monthly average mortgage rates by year

U.S. average 15-year fixed mortgage rate (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<td>2011</td>
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<td>4.21</td>
<td>4.08</td>
<td>4.05</td>
<td>3.82</td>
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<td>3.68</td>
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<tr>
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<td>3.12</td>
<td>3.14</td>
<td>3.16</td>
<td>3.18</td>
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<td>2020</td>
<td>3.07</td>
<td>2.97</td>
<td>2.88</td>
<td>2.80</td>
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<td>2.60</td>
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<td>2.48</td>
<td>2.38</td>
<td>2.35</td>
<td>2.31</td>
<td></td>
</tr>
</tbody>
</table>

Source: Freddie Mac Primary Mortgage Market Survey through November 19, 2020
New Home Sales Exceptionally Strong

New Home Sales, 2019 and 2020, SAAR (000s)

http://www.calculatedriskblog.com/
Inventory Struggling to Keep Pace

New Home Inventory

- Completed
- Under Construction
- Not Started

Units (000s)

http://www.calculatedriskblog.com/
And Months of Supply at All-Time Low
But Housing Starts Offer a Glimmer of Hope

U.S. Single-family Housing Starts (1000s, SAAR)

Confidence Interval Around Estimates
- 25th to 75th pctile
- 5th to 25th (75th to 95th)

Source: U.S. Census Bureau and Department of Housing and Urban Development
Confidence interval based on normal distribution given relative standard error.
Dotted line at October 2020 estimate
The CRE Market
CRE Sales Have Suffered from COVID-19
Prices Have Also Dropped in Most Sectors

Percent Change in Commercial Prices (Price Per Square Feet) vs. January 2020

- All
- Apt
- Office
- Industrial
- Retail

Commercial Sales Prices in 2020 Q3 by Property Type (YoY % Chg.)

- Hotel/Hospitality
- Retail Mall
- Retail Strip Center
- Office Class A
- Office Class B/C
- Retail-Free Standing
- Senior Housing
- Land
- Apartment Class A
- Apartment Class B/C
- Industrial, Flex
- Industrial, Warehouse

- 2020 Q2
- 2020 Q3

-9% -5% -4% -3% -2% 0% 0% 0% 0% 0%

Feb Mar Apr May Jun Jul Aug
Delinquencies Up, But May Be Improving

- **53%** of respondents reported an increase in tenants with missed/late/partial residential apartment rent (48% in 2020 Q2)
- **54%** of respondents reported an increase in missed/late/partial rent payment for office, retail, industrial space (55% in 2020 Q2)
- **65%** of respondents reported an increase in tenants who get rent concessions (53% in 2020 Q2)
- **37%** of respondents reported an increase in co-tenancy clauses in retail properties (20% in 2020 Q2)

Source: Trepp
Leasing Volume Down, Vacancy Rates Up

Leasing Volume in 2020 Q3 by Property Type (YoY % Chg.)

- Retail Mall: -9%
- Apartment Class A: -4%
- Office Class A: -4%
- Retail Strip Center: -2%
- Office Class B/C: -2%
- Retail Free-standing: -2%
- Industrial Warehouse: 0.2%
- Industrial Flex: 0.4%

Vacancy Rates as of 2020 Q2

- Office: 12.80% (2019 Q2: 6.40%)
- Industrial: 13.20% (2019 Q2: 6.60%)
- Retail: 13.70% (2019 Q2: 6.80%)

Construction Delayed, But Showing Life

Construction Projects (in sq. ft) in 2020 Q3 by Property Type (YoY % Chg.)

Year-over-Change in the Value of Construction Spending Put in Place as of August 2020

Source: US Census Bureau
Distressed Inventory: Forbearance & Foreclosures
<5.5% of Mortgages are in Forbearance
Forbearance Requests Peaked in March

Weekly Borrower Forbearance Requests as % of Servicing Volume (#)
76% of Forbearances are Extensions
81% of Exits are Successful

% of Cumulative Forbearance Exits by Reason

- Repayment Plan: 0.95%
- Cancel/Stayed Current w/o Loss Mit: 30.59%
- Repayment Plan: 16.92%
- Payment Deferral/Partial Claim: 23.89%
- Modification or Combo: 6.77%
- Loan Paid Off: 7.07%
- Cancel/Not Current/No Loss Mit: 12.81%
- Other: 1.00%

Cumulative Forbearance Exits as a % of Average Servicing Portfolio: 4.90%

Source: MBA's Weekly Forbearance and Call Volume Survey, as of 11/8/20
© 2020 Mortgage Bankers Association (MBA). All Rights Reserved.
Rent Payments off by ~2% from 2019

Rent Payment Tracker: Weekly Results

**Data collected from between 11.1 - 11.5 million apartment units each month

<table>
<thead>
<tr>
<th>Week Ending</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>89.8%</td>
<td>87.7%</td>
</tr>
<tr>
<td>Jun</td>
<td>88.9%</td>
<td>89.0%</td>
</tr>
<tr>
<td>Jul</td>
<td>90.1%</td>
<td>87.6%</td>
</tr>
<tr>
<td>Aug</td>
<td>88.9%</td>
<td>86.9%</td>
</tr>
<tr>
<td>Sept</td>
<td>88.7%</td>
<td>86.2%</td>
</tr>
</tbody>
</table>

*6th* and *13th* week of the month.
Mortgage Delinquencies Spiked in Q2 2020

Mortgage Delinquency Rates by Loan Type
Seasonally adjusted, based on loan counts, excludes loans in foreclosure

Source: MBA National Delinquency Survey
Loans in Forbearance = Longer Delinquency

Delinquency Increases Driven by 60 and 90+ Day

Mortgage Delinquency Rates
Seasonally adjusted, excludes loans in foreclosure

Source: MBA National Delinquency Survey
Foreclosure Activity at Pre-Recession Low
Polling Question

How do you expect your organization’s foreclosure volumes in 2021 to compare to 2020?

a. No change
b. 1% to 10% increase
c. 11% to 30% increase
d. 31% to 50% increase
e. Increase more than 50%
Thank You!

Rick Sharga
Executive Vice President
rick.sharga@realtytrac.com
949-322-4583
@ricksharga
Sizing Present & Future Foreclosure Volume

Through the prism of three questions:

- How big is the building foreclosure backlog?
- Where and what type of foreclosure volume is already returning?
- What could the next five years look like?
How Big is the Foreclosure Backlog?

85,000 non-forbearance delayed foreclosures

— 2019 — 2020

Source: Auction.com
How Big is the Foreclosure Backlog?

900,000 non-forbearance delinquencies

3.7 million loans 30 days or more past due

2.4 million in active forbearance (65 percent)

782K never in forbearance (21 percent)

395K exited in loss mitt (11 percent)

107K exited no loss mitt (3 percent)*

Source: Black Knight  *MBA numbers would put this closer to 300K
How Big is the Foreclosure Backlog?

1.8 million seriously delinquent in forbearance

Source: Black Knight
How Big is the Foreclosure Backlog?

1.1 million total backlog of properties likely to start foreclosure soon after foreclosure moratoria are lifted

- 85,000+ non-forbearance foreclosures likely to restart foreclosure process soon after moratoria are lifted
- ~900K of the 1.2 million non-forbearance DQ (those not in loss mitigation) likely to move into foreclosure process within 120 days after moratoria are lifted
- Based on to-date forbearance exit outcomes from MBA, 160,000 of 1.8 million SDQ in forbearance (9%) likely to exit still in default with no loss mitigation by Q2 2021
Where Are Foreclosure Volumes Already Returning?
Where Are Foreclosure Volumes Already Returning?

Q3 2020 Foreclosure Inflow Trends by State

Source: Auction.com
Where Are Foreclosure Volumes Already Returning?

Foreclosure Inflow Trends by Loan Type

- **VA**: 84% increase
- **FHA**: 30% increase
- **GSE**: -3% decrease
- **All Loan Types**: -7% decrease
- **Private Portfolio**: -9% decrease

Source: Auction.com
Where Are Foreclosure Volumes Already Returning?

Foreclosure Auction Demand Trends

- Price Execution to Est. Market Value
- Sales Rate

REO Auction Demand Trends

- Bidders per Asset Sold
- Bids per Asset Sold

Source: Auction.com
What Could the Next Five Years Look Like?

1.5 to 2 million completed foreclosures in next five years

Foreclosure Forecast by Month

- Actual Foreclosures Brought to Auction
- Forecast Foreclosures Brought to Auction
- Actual Unemployment Rate
- Forecast Unemployment Rate (CBO)
- Actual Seriously Delinquent Rate
- Forecast SDQ Rate

Source: Source: Auction.com analysis using data from Congressional Budget Office, Black Knight, MBA and ATTOM Data Solutions
What Could the Next Five Years Look Like?

Source: BLS
What Could the Next Five Years Look Like?

- Highest SDQ rates in DC, NJ, PR, HI, NY
- Highest volume of SDQ FHA-insured loans TX, FL, CA, GA, NY

Source: HUD Neighborhood Watch
Webinar Wrap-Up

Questions
If you have a question regarding today’s presentation, please contact the ALFN or any of the presenters directly.

ALFN
636.257.4500
info@alfn.org

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Statute of Limitations in a Post-COVID World
Friday, December 4, 2020

Impact of COVID-19 on Foreclosure Filings and Detailed Information on State Holds for Select States
Wednesday, December 9, 2020

Legislation & Litigation Hot Topics
Friday, December 11, 2020

COVID-19 Restrictions and Borrower Defenses
Tuesday, December 15, 2020

Law Firm & Service Provider Readiness – Planning for the Unknown
Thursday, December 17, 2020

Post-Foreclosure Issues
Monday, December 21, 2020

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Bankruptcy Intersect 2021
March 2021
www.alfn.org

WILLPOWER 2021
April 29-30, 2021 – The Ritz-Carlton Dallas
Dallas, TX
www.alfn.org
Registration Opens December 2020

ANSWERS 2021
July 18-21, 2021 – Hyatt Regency Coconut Point Resort Bonita Springs, FL
www.alfnanswers.org
Registration Opens February 2021

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November 18, 2021 – Marriot Dallas Las Colinas
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www.alfnanswers.org
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ANSWERS 2023
July 16-19, 2023 – Park Hyatt Beaver Creek Resort, Beaver Creek, CO
www.alfnanswers.org
Registration Opens February 2023
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