

Mortgage Foreclosure Timelines: What is the New Normal?

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Presentation to the
2nd Annual Stress Testing Model Symposium

June 26, 2013

The opinions expressed herein are mine
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Further Disclaimer: All materials presented herein are from the Philadelphia Fed working paper, “The Cost of Delay” by Cordell, Geng, Goodman and Yang* using publicly available sources

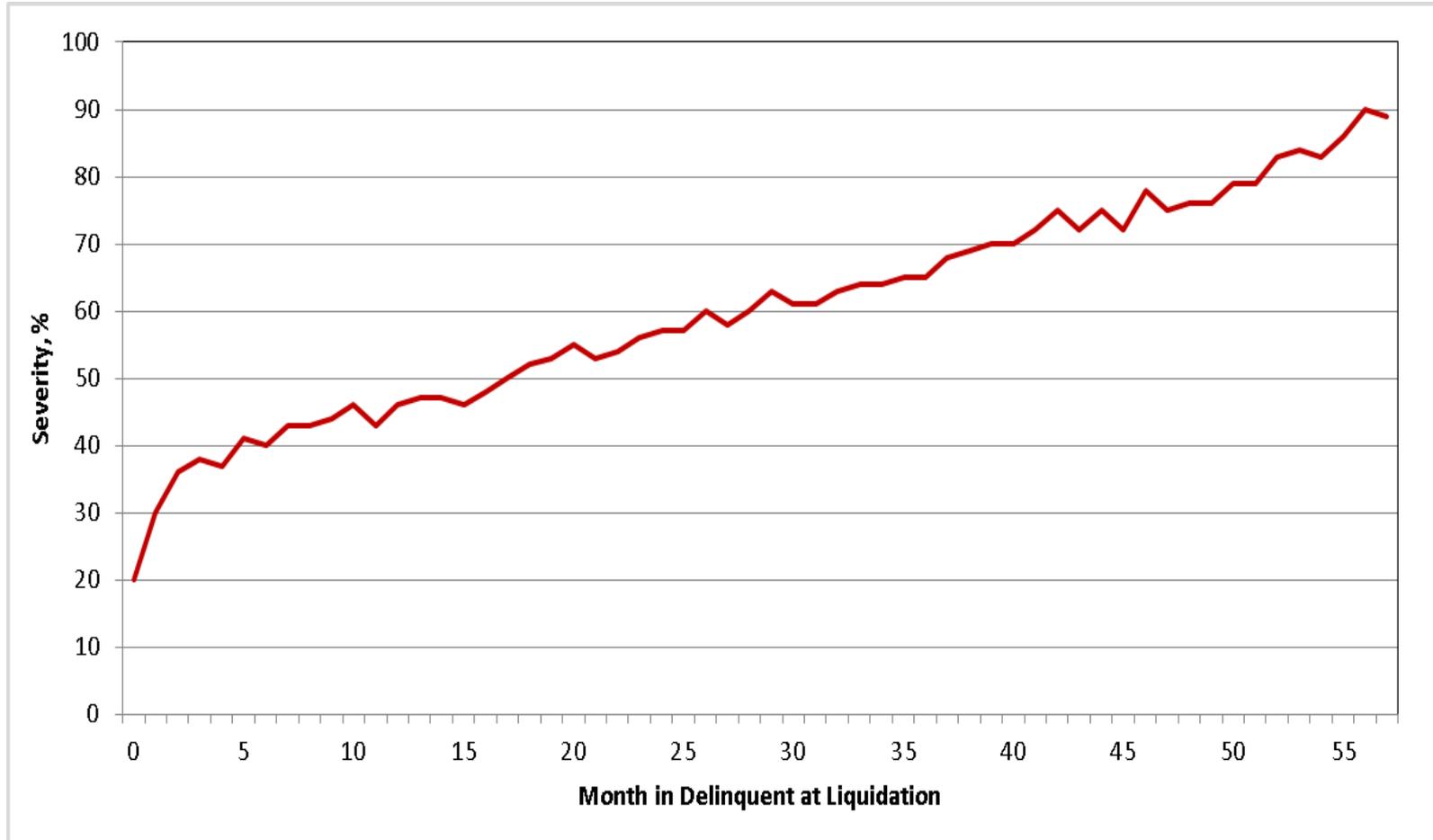
*<http://www.philadelphiafed.org/research-and-data/publications/working-papers/2013/wp13-15.pdf>

Outline

- Since November 2008 foreclosure and REO liquidation timelines have extended to unprecedented lengths.
- Even after the National Mortgage Settlement in January 2012, foreclosure timelines do not yet exhibit evidence they are shortening to pre-crisis levels.
- The terms of the settlement indicate that timelines will lengthen, which will increase foreclosure costs.
- Evidence from our research shows extended timelines add significantly to loss given defaults (LGDs).
- Central issues: What is the “New Normal”? How should extended timelines be reflected in our severity modeling, particularly in a stress environment?

Longer Timelines Are Significantly Affecting Severities

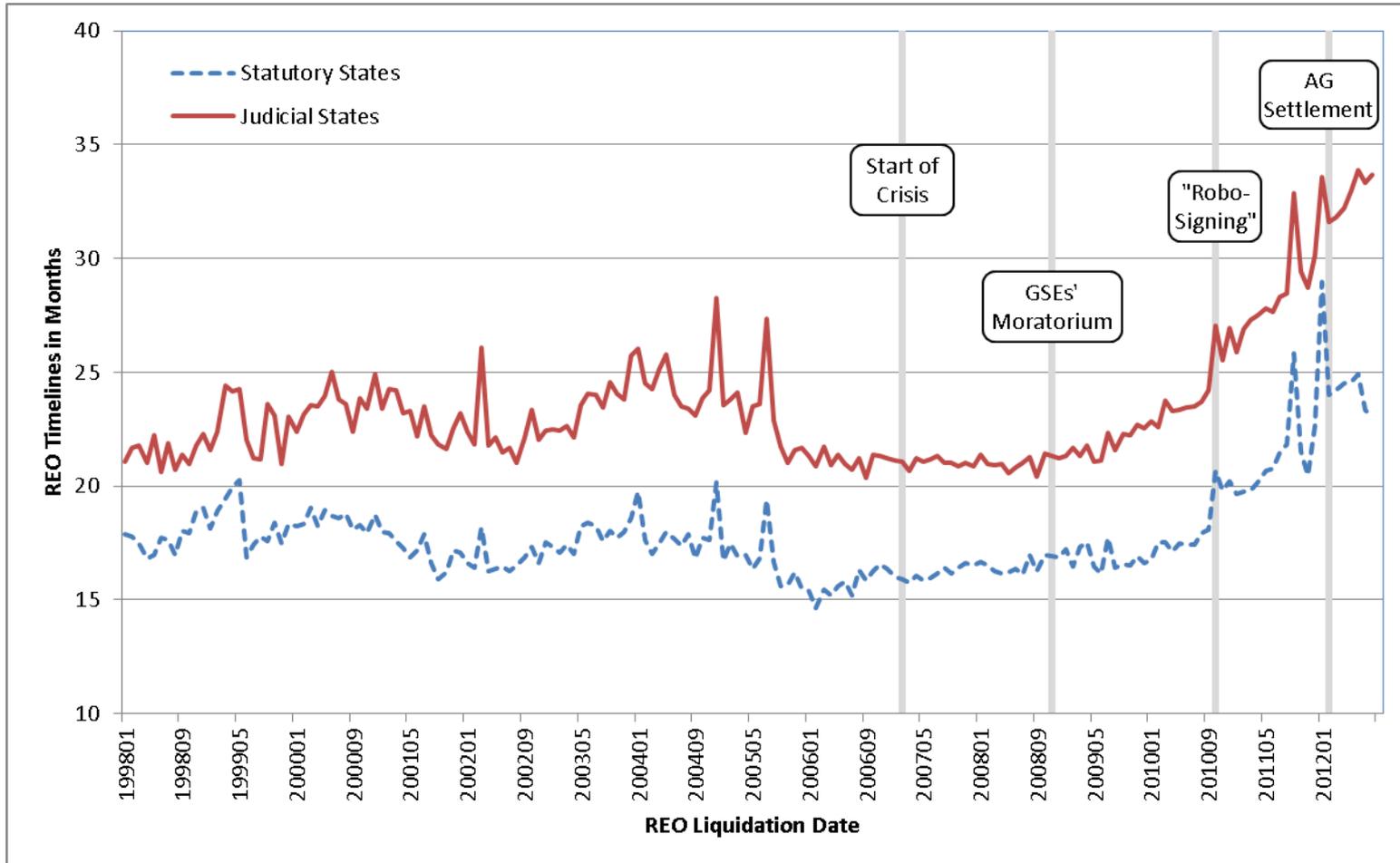
Unconditional Severity Rates By Number of Months to Liquidation



Source: CoreLogic ABS/MBS Data, Cordell, Geng, Goodman, Yang (2013).

REO Liquidation Timelines Have Extended to Historic Highs

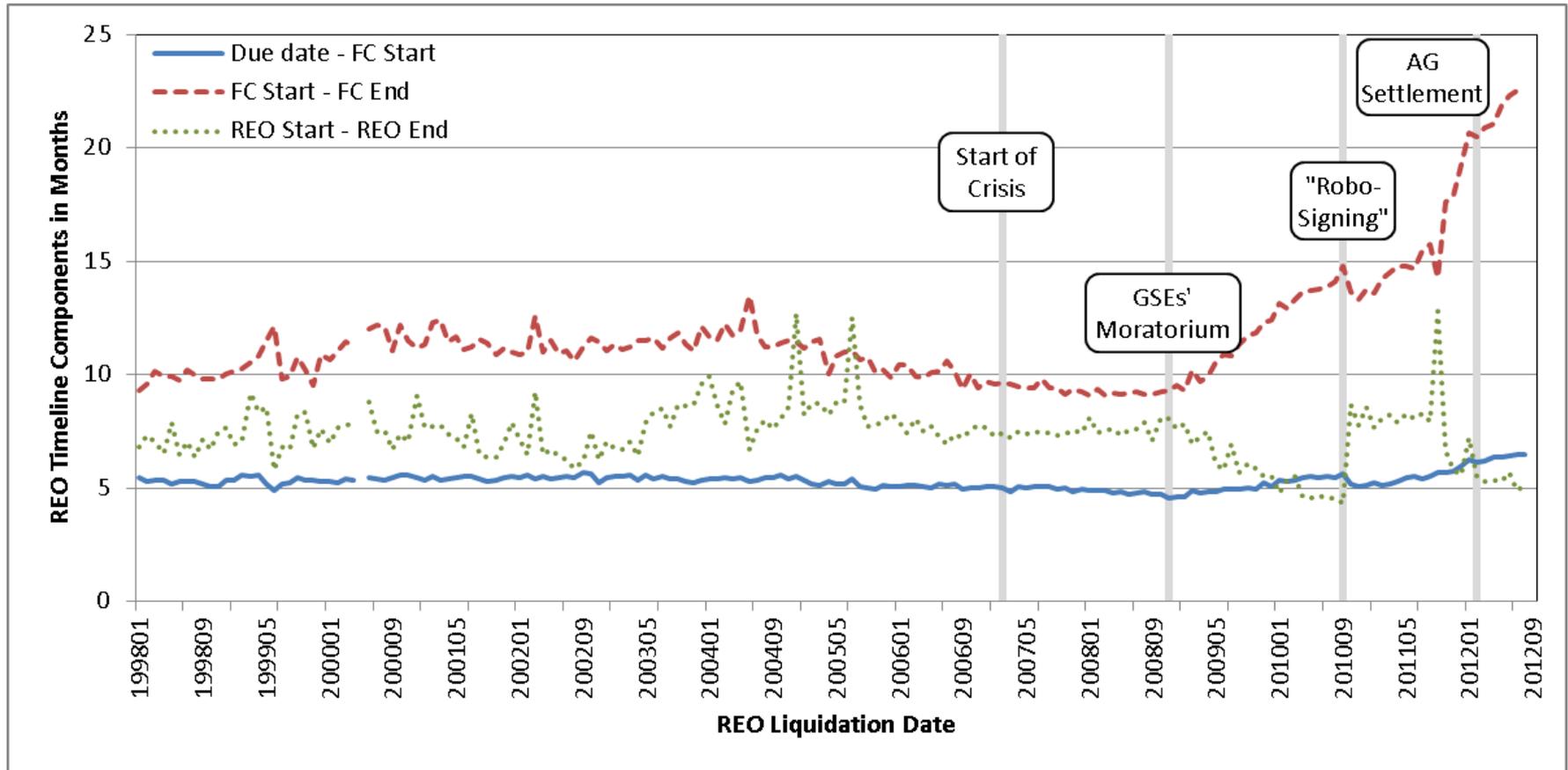
(REO Liquidation Timelines 1998--201209)



Source: Lender Processing Services, Cordell, Geng, Goodman, Yang (2013).

Lengthening is Mainly from Time in the Foreclosure Pipeline Timelines Are Much Longer in Judicial Foreclosure States

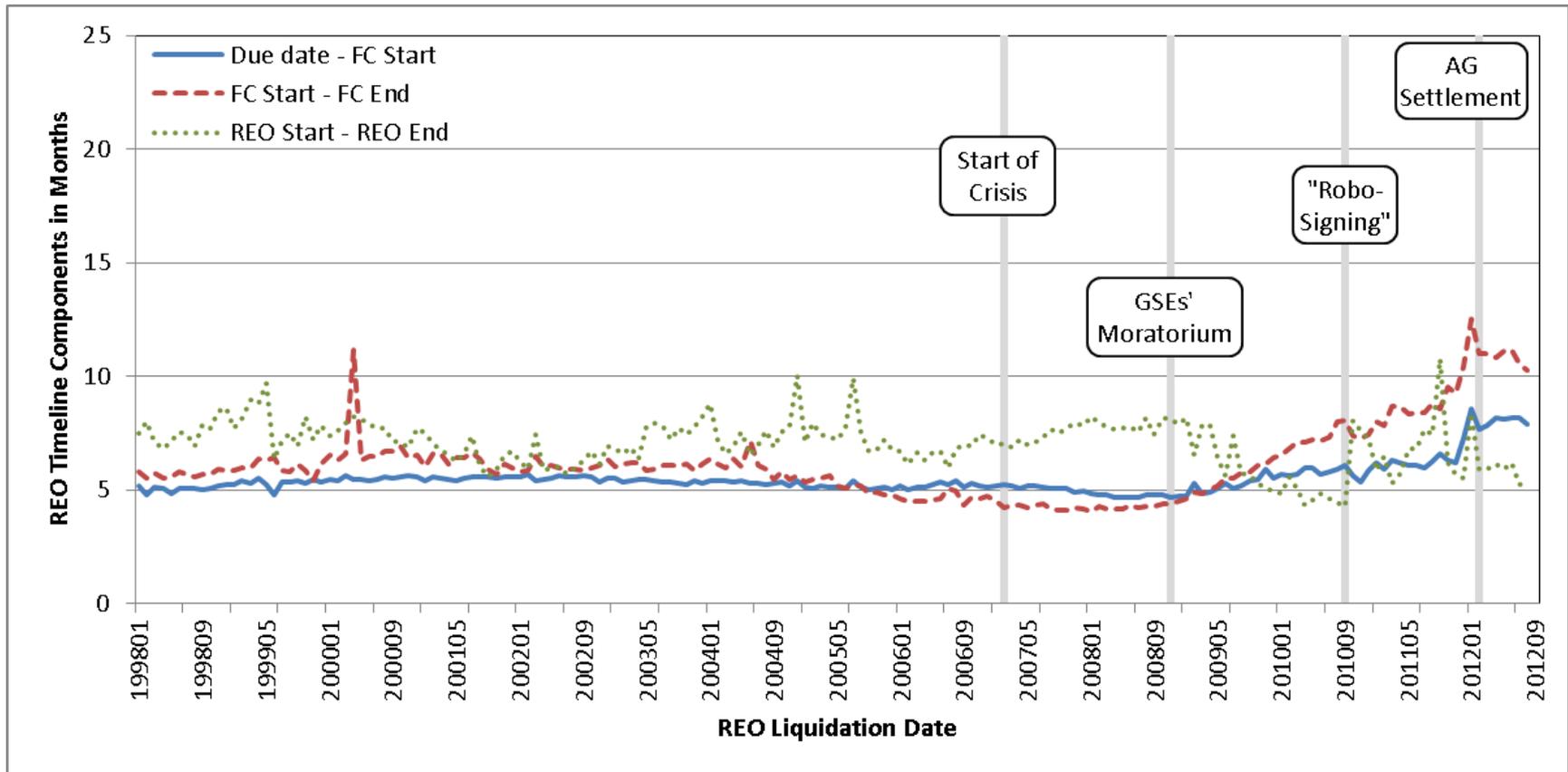
REO Liquidation Timelines Broken Out Into Component Parts Judicial States



Source: Lender Processing Services, Cordell, Geng, Goodman, Yang (2013).

Lengthening is Mainly from Time in the Foreclosure Pipeline Timelines Are Shorter in Statutory Foreclosure States

REO Liquidation Timelines Broken Out Into Component Parts Statutory States

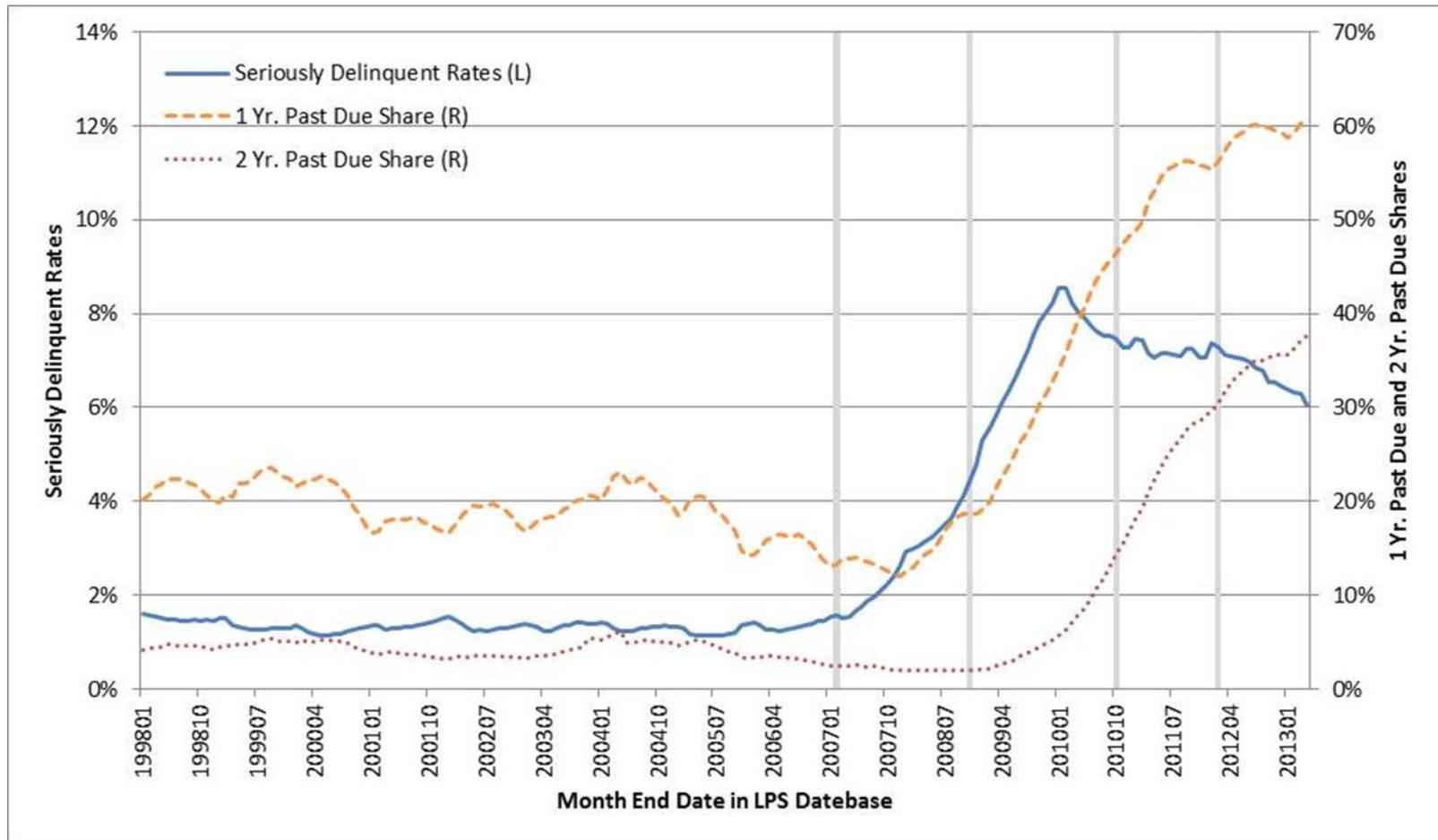


Source: Lender Processing Services, Cordell, Geng, Goodman, Yang (2013).

Loans Are Sitting in Delinquency Much Longer

Share of Seriously Delinquent Loans

And Share of Seriously Delinquent Loans More than One and Two Years Delinquent
1998: 201304



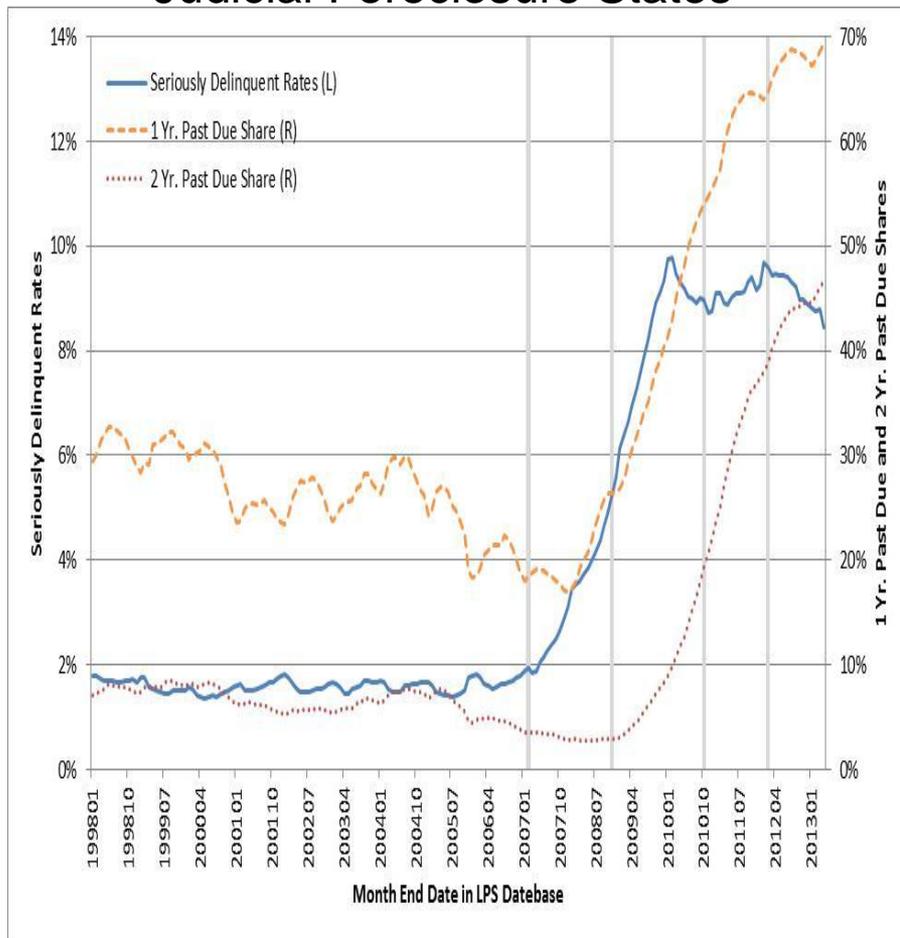
Source: Lender Processing Services, Cordell, Geng, Goodman, Yang (2013).

The Problem Exists for Both Judicial and Statutory States

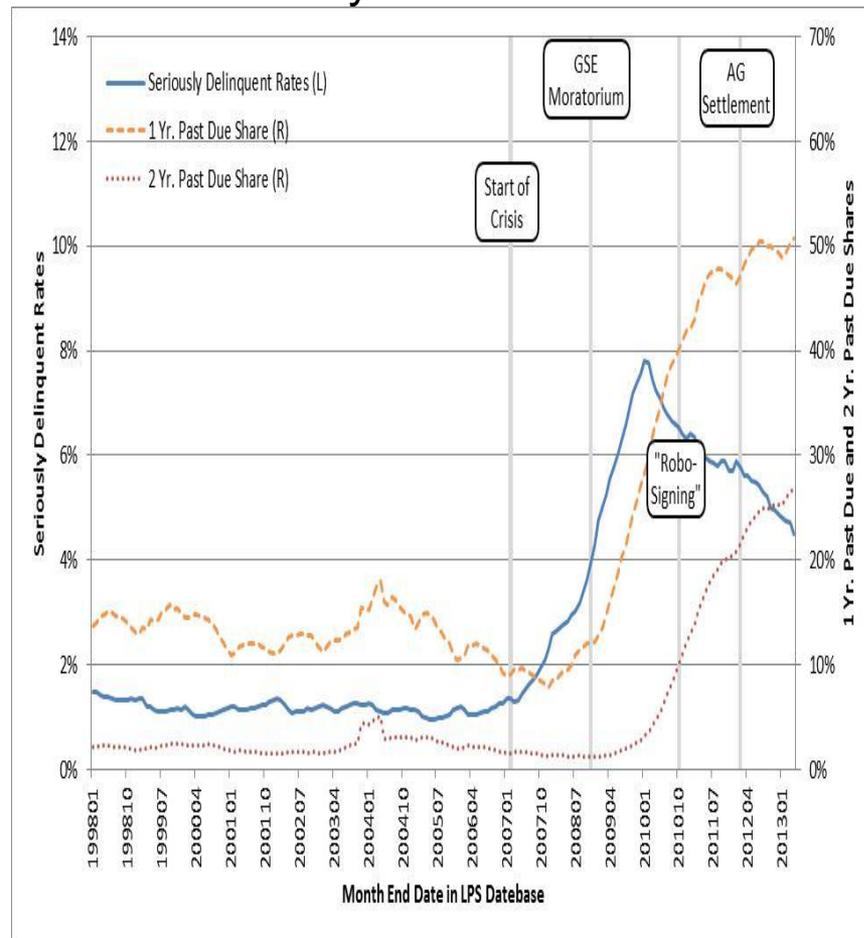
Share of Seriously Delinquent Loans

And Share of Seriously Delinquent Loans More than One and Two Years Delinquent
1998: 201304

Judicial Foreclosure States



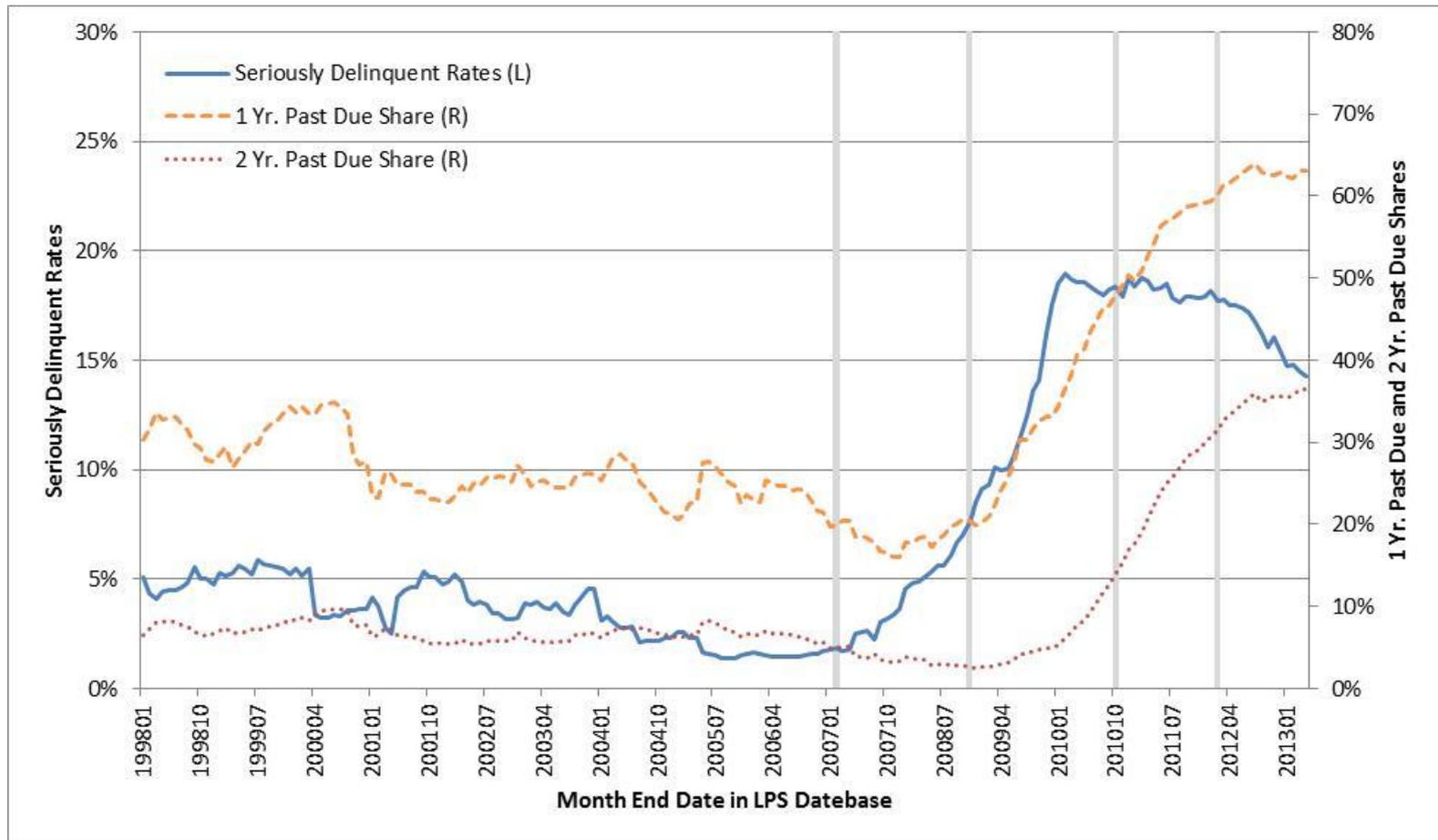
Statutory Foreclosure States



Loans in Bank Portfolios Exhibit the Same Patterns

Share of Seriously Delinquent Loans

And Share of Seriously Delinquent Loans More than One and Two Years Delinquent
Bank Portfolio Loans
1998: 201304



Source: Lender Processing Services, Philadelphia Fed RADAR Group.

Forecasted Timelines Are Even Longer When Adjusted for “Censoring”

Actual and Censored-Adjusted REO Liquidation Timelines By Time of Default						
Judicial States	Uncensored Data		Censored Data		Combined Data	
Default Period	Counts	Avg REO Timeline (in months)	Loan Counts	Avg Duration as of 201209 (in months)	% Of Censored Loan	Estimated Timelines (in months)
Period 1 (2005 -Jan07)	18,941	25			0%	27
Period 2 (Feb07-Oct08)	196,539	27	35,156	57	15%	32
Period 3 (Nov08-Aug10)	248,894	26	244,311	40	50%	39
Period 4 (Sep10-Jan12)	44,647	18	288,595	21	87%	44
Period 5 (Feb12-Sep12)	1,238	9	172,030	10	99%	44
Statutory States	Uncensored Data		Censored Data		Combined Data	
Default Period	Counts	Avg REO Timeline (in months)	Loan Counts	Avg Duration as of 201209 (in months)	% Of Censored Loan	Estimated Timelines (in months)
Period 1 (2005 -Jan07)	31,585	19			0%	16
Period 2 (Feb07-Oct08)	388,476	20	10,137	57	3%	18
Period 3 (Nov08-Aug10)	674,307	20	112,753	39	14%	20
Period 4 (Sep10-Jan12)	210,087	15	237,701	21	53%	22
Period 5 (Feb12-Sep12)	12,040	10	211,462	10	95%	22

Source: Cordell, Geng, Goodman, Yang (2013), Table 3.

Estimating the Components of Time-Related Liquidation Costs

1. Property Taxes: If borrower not paying, servicer must pay property taxes
2. Principal and Interest Advances (or accrued interest for portfolio loans)
3. Hazard Insurance: Lender must pay this; forced place insurance costs high
4. “Excess Depreciation”: Property maintenance costs after a property is in REO and the property is vacant (e.g., mowing the lawn, fixing the roof); also includes time-dependent direct foreclosure costs
5. Economic cost of carrying a non-earning asset
 - #1 is directly observable
 - For bank portfolio loans, #2 is the amount of interest accrued, generally for the first 90 days; for PLMBS they are reimbursable and not a cost.
 - For portfolio loans, #5 can be estimated from the weighted avg. COFs.
 - #3 and #4 is estimated with the proprietary model from Amherst (2010, 2011)

Time-Related Costs Have Increased Significantly

Comparison of Timeline Costs, Pre-Crisis and Latest Period							
	Pre-Crisis			Latest Period			Total Change Periods 1 to 5
	(2005 - 2007/01)			(2012/02-2012/09)			
	Tax	Ins. & Excess Dep.	Total Timeline Cost	Tax	Ins. & Excess Dep.	Total Timeline Cost	
Foreclosure Law							
Judicial States	6%	11%	17%	11%	19%	30%	13%
Statutory States	3%	5%	8%	4%	7%	12%	3%
Highest - NY	9%	12%	21%	16%	23%	39%	19%
Lowest - AR	1%	5%	6%	1%	8%	10%	3%
All States	4%	7%	11%	7%	12%	19%	8%
Note: This table presents the calculated timeline costs as percentage of unpaid balance							
Source: Cordell, Geng, Goodman, Yang (2013), Table 4.							

Central Questions:
What is the New Normal?
How Do We Model Time-Related Costs
in a Stress Environment?