MORTGAGE MONITOR

BLACK KNIGHT®

AUGUST 2020 REPORT

MORTGAGE MONITOR

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AUGUST 2020 OVERVIEW

Each month, the Black Knight Mortgage Monitor looks at a variety of issues related to the mortgage finance and housing industries.

This month, as always, we begin with a review of some of the high-level mortgage performance statistics reported in our most recent First Look report, with an update on delinquency and foreclosure trends. Next, we take a closer look at the improved mortgage delinquency numbers for August, including new delinquency and cure rates, and an example recovery scenario based on improvement rates to date.

Next, we look at the latest forbearance activity data from Black Knight's McDash Flash daily performance dataset. Forbearances continue to improve incrementally, with some promising figures in early-stage delinquencies and currently performing mortgages. Finally, we examine how current market conditions, compounded by an unprecedented public health crisis, along with record-low rates and housing inventory have impacted home affordability and tappable equity.

In producing the Mortgage Monitor, Black Knight's Data & Analytics division aggregates, analyzes and reports upon the most recently available data from the company's vast mortgage and housing related data assets. Information is gathered from the McDash loan-level mortgage performance dataset, the Black Knight HPI and the company's robust public property records database covering 99.9% of the U.S. population. For more information on gaining access to Black Knight's data assets, please call 844-474-2537 or email mortgage.monitor@bkfs.com.

MORTGAGE MONITOR

AUGUST 2020 FIRST LOOK RELEASE

Here we have an overview of findings from Black Knight's 'First Look' at August 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.

AUGUST OVERVIEW STATS

0.53%

CHANGE IN DELINQUENCY RATE

Improvement in early-stage delinquencies continues, though the rate of improvement has slowed

In August, the sum of all **early-stage delinquencies fell 9%**, dropping below pre-pandemic levels

5%

SERIOUS DELINQUENCIES

August's improvement in early-stage delinquency rates was offset by a **5% increase in mortgages that are 90+ days past due**

This was the **mildest increase in five months**, suggesting we may be reaching the peak

40%

FORECLOSURE START RATE

Despite the vast numbers of seriously delinquent loans, **foreclosure rates continued to drop** due to forbearance plans and moratoriums

Nearly 2.4M properties are 90+ days past due, but there were **only 6K foreclosure starts in August**

The divergence of early-stage delinquencies and seriously delinquent loans has compounded in August, with improvement in the former and a worsening in the latter. Overall, it appears we may be reaching the peak of serious delinquencies related to the COVID-19 pandemic.

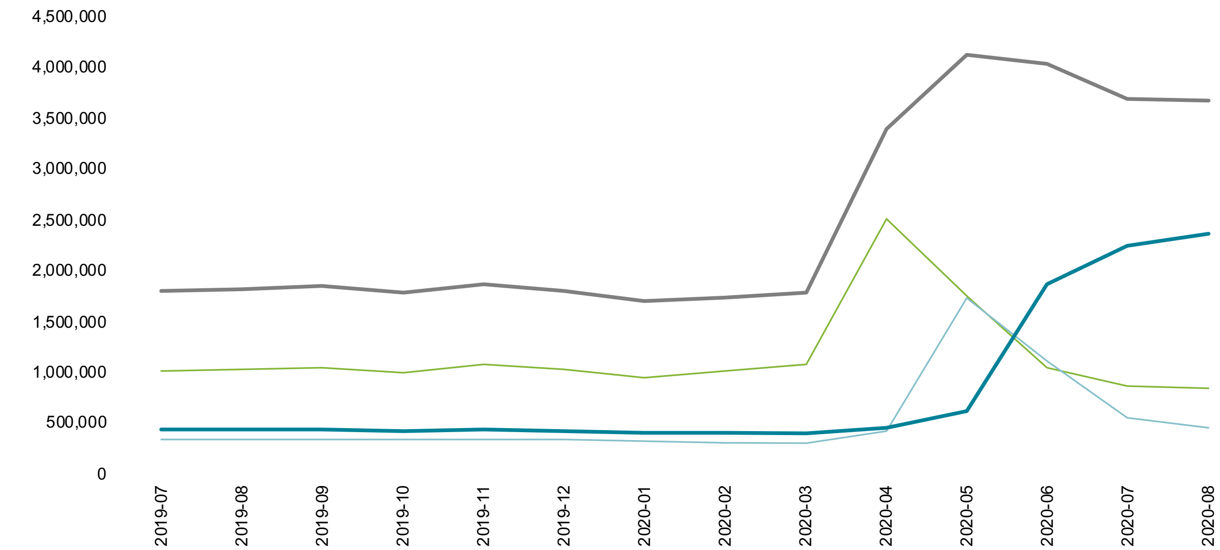
MORTGAGE MONITOR

AUGUST 2020 PERFORMANCE HIGHLIGHTS

Here we take a detailed look at August mortgage performance data as well as forbearance trends. In addition, we provide an updated comparison of early COVID-19 impacts to natural disaster events from a mortgage performance perspective. This information has been compiled from Black Knight's original McDash loan-level mortgage performance database as well as the company's daily McDash Flash data set and Payment Tracker. You may click on each chart to see its contents in high-resolution.

NATIONAL DELINQUENCY RATE – FIRST LIEN MORTGAGES

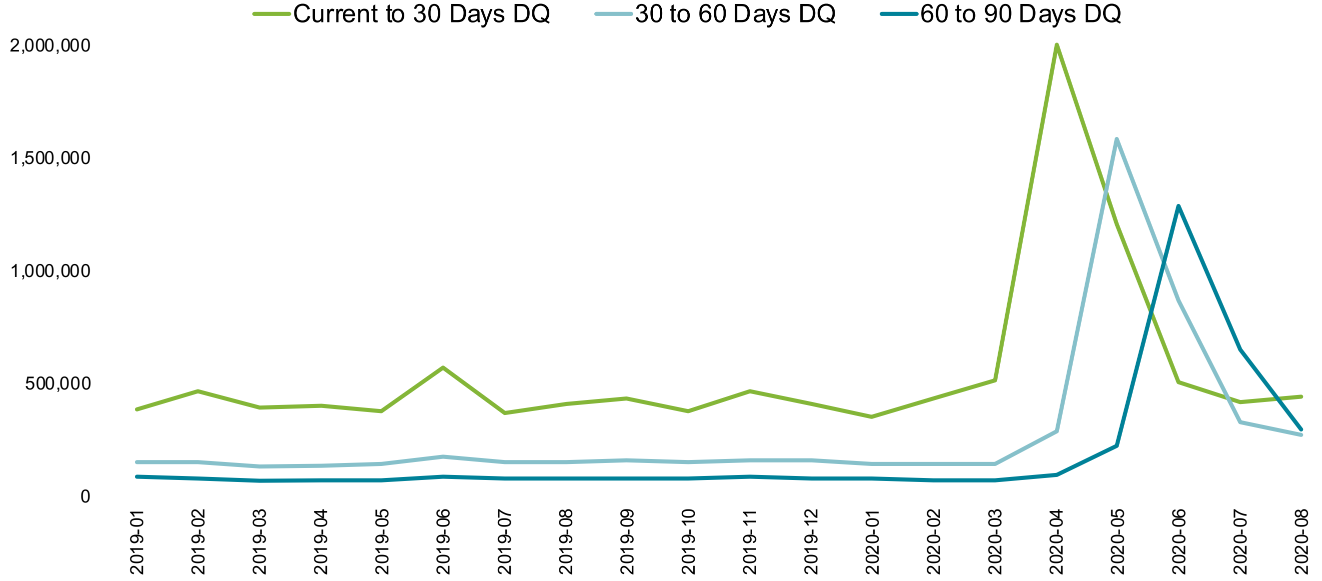
MORTGAGE DELINQUENCIES BY SEVERITY



Source: McDash

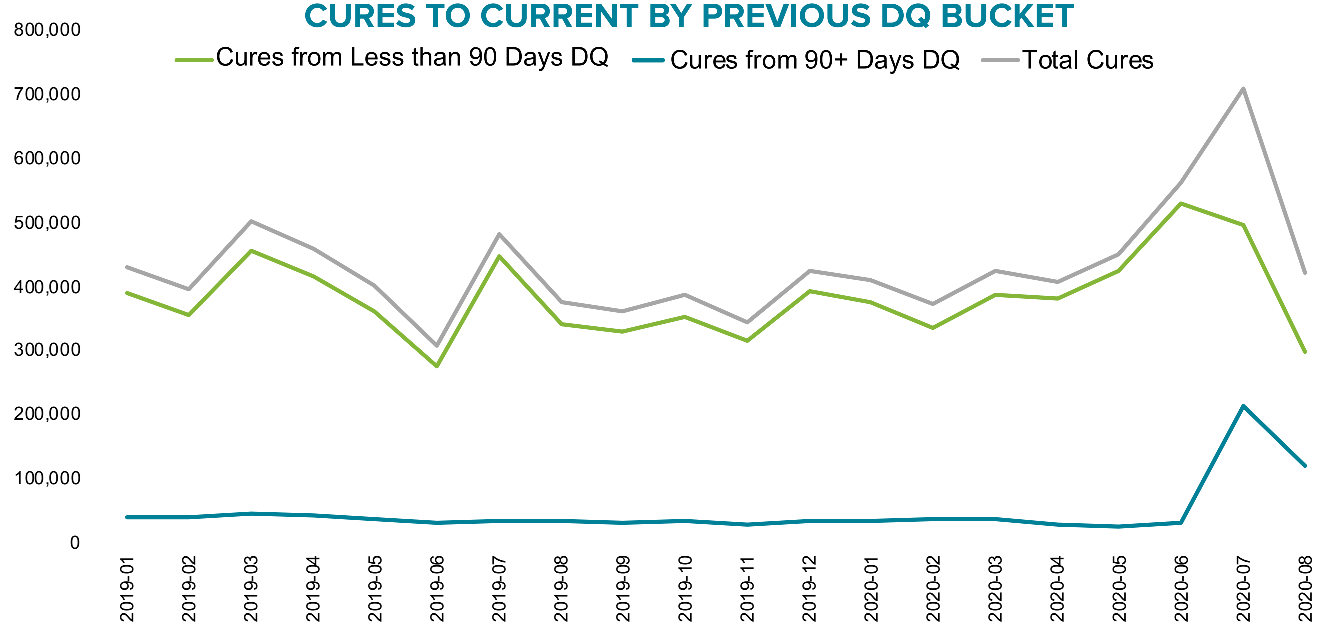
- The chasm between early-stage delinquencies and seriously past-due mortgages continued to widen in August
- Overall delinquencies nationwide fell by 0.03% from July after declining a combined 0.85% over the prior two months, a noticeable slowing in the rate of improvement
- The share of borrowers with a single missed payment had already fallen below pre-pandemic levels; in August, the sum of all early-stage delinquencies (those 30- and 60-days past due) fell 9%, to drop below that benchmark as well
- However, the improvement in early-stage delinquencies was offset by a 5% increase in serious delinquencies – 90 or more days past due – which have now risen in each of the past five months
- At 6.88%, the national delinquency rate is now 3.6% above its pre-pandemic level

LOANS ROLLING TO A MORE DELINQUENT STATUS



Source: McDash

CURES TO CURRENT BY PREVIOUS DQ BUCKET

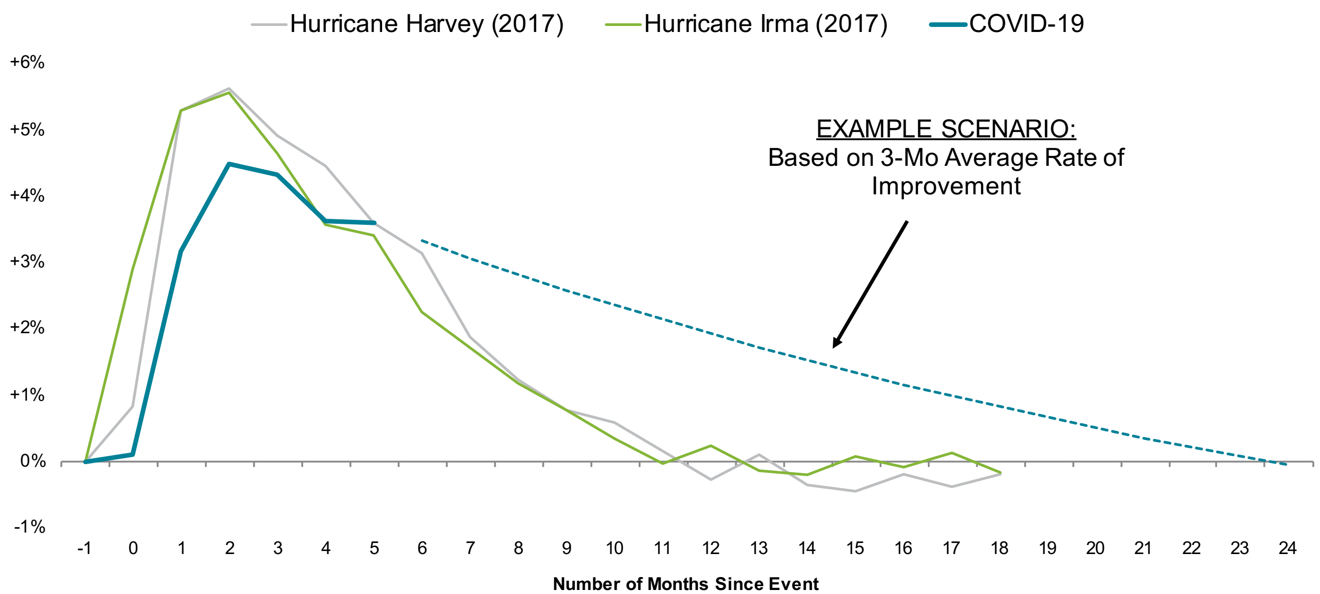


Source: McDash

- August's lackluster delinquency rate improvement was primarily a result of declining cure activity
- When looking at the volume of new delinquencies (current to 30 days delinquent), the rise in August was limited (+6%), with 445K new past due mortgages; this number increased from 419K in July
- The number of loans rolling from 30 to 60 and from 60 to 90 days delinquent actually declined from July
- The biggest month-over-month difference came in cure activity (the number of past due borrowers paying their mortgages current), which fell by more than 40% in August, from 710K to 421K
- Similar declines in cure activity were seen in both early-stage and serious delinquencies
- This decline in cure activity could be due in part to the lack of forbearance expirations that scheduled to take place in the month of August

DELINQUENCY RATE FOLLOWING NATURAL DISASTERS

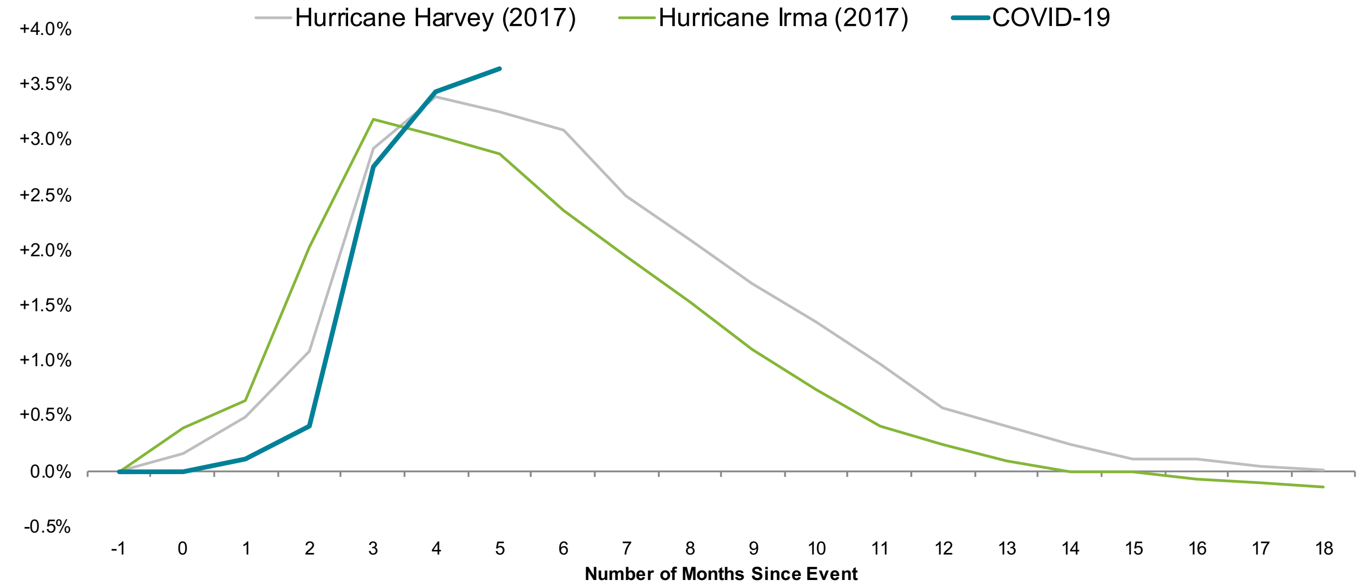
(DIFFERENCE IN DELINQUENCY RATE VS. 1-MONTH PRIOR TO THE EVENT)



Source: McDash

90+ DAY DQ RATE FOLLOWING NATURAL DISASTERS

(DIFFERENCE IN 90+ DAY DQ RATE VS. 1-MONTH PRIOR TO THE EVENT)

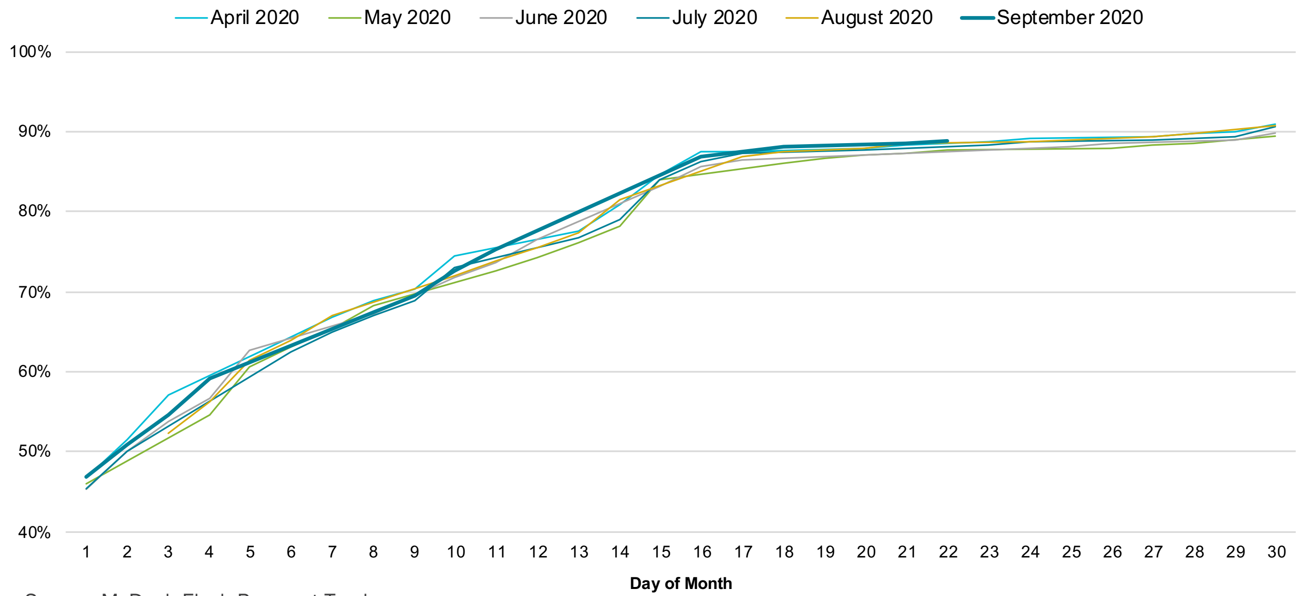


Source: McDash

- Taking a side-by-side look at the impacts of both COVID-19 and recent natural disasters on mortgage performance, we can see the trend lines begin to diverge
- Carrying forward the 3-month average rate of improvement since mortgage delinquencies peaked in late May shows that delinquencies wouldn't return to pre-pandemic levels until March 2022
- Delinquencies would still be elevated by nearly 2% when the first wave of mortgages in forbearance reach their 12-month expiration period in March 2020, leaving more than 1M excess mortgage delinquencies

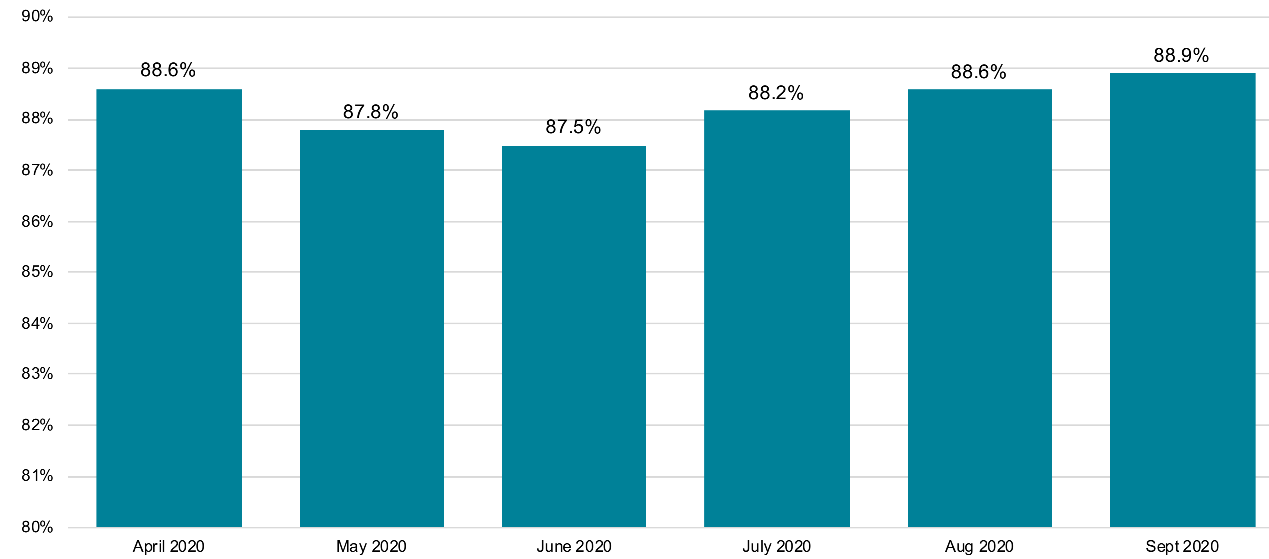
- The rate of 90-day delinquencies has also broken with trending data from recent natural disasters, with more than 3.5% of all mortgages currently seriously delinquent as a result of COVID-19
- While 90-day delinquencies typically peak 3-4 months after a natural disaster, we saw an additional increase in August, the fifth month of the pandemic's impact
- That said, August's increase was the smallest in the past five months, which – along with falling levels of early-stage delinquencies – suggests that 90-day delinquencies could be nearing their peak

CUMULATIVE SHARE OF MORTGAGE PAYMENTS RECEIVED



Source: McDash Flash Payment Tracker

SHARE OF MORTGAGE PAYMENTS RECEIVED THROUGH THE FIRST THREE WEEKS OF EACH MONTH



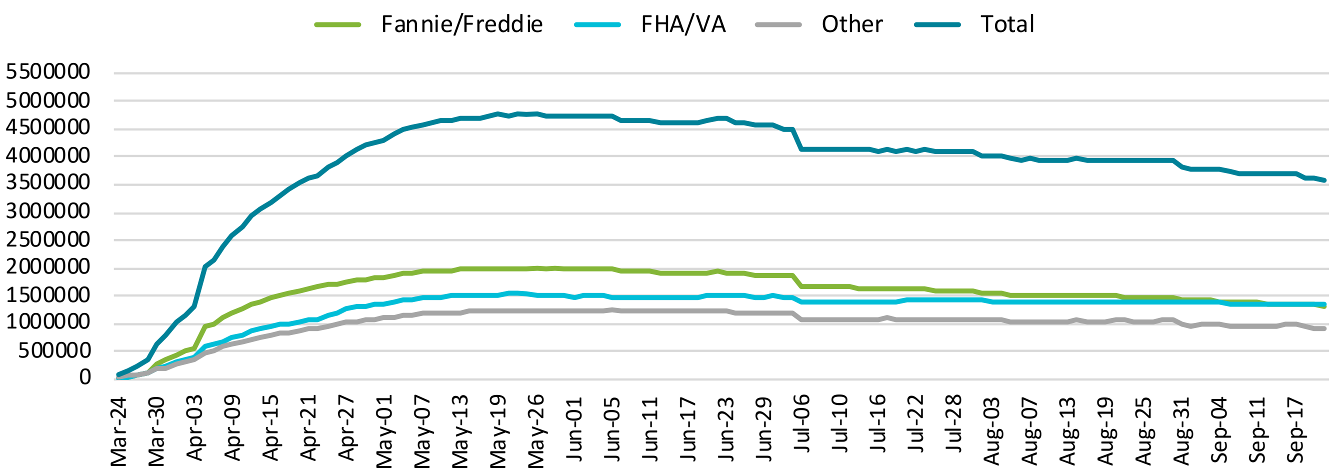
Source: McDash Flash Payment Tracker

- An early look at September via Black Knight's McDash Flash Payment Tracker shows some positive signs for the industry
- Despite September seeing delinquencies rise by an average of 5.1% over the past 19 years, payment activity is improving from where it's been at the same time over the past five months
- This suggests that we could see the national delinquency rate fall again in September if increased payment activity persists during the last week of the month
- Through September 22, 88.9% of first-lien mortgage holders had made their monthly payment, up from 88.6% in August, and 87.5% at the same time in June

AUGUST 2020 FORBEARANCE ACTIVITY UPDATE

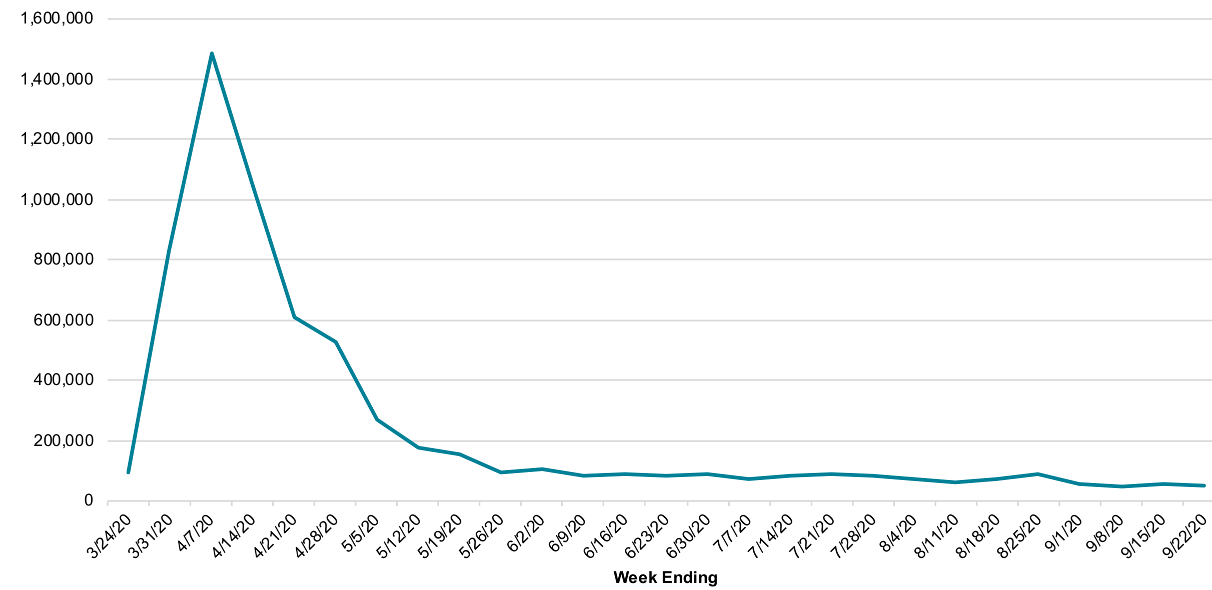
Here, we look at the latest forbearance activity data, finding that incremental improvement continues, with some promising figures in early-stage delinquencies and currently performing mortgages. This information has been compiled from Black Knight's McDash loan-level mortgage performance database as well as the company's daily McDash Flash data set. You may click on each chart to see its contents in high-resolution.

ACTIVE FORBEARANCE PLANS



Source: McDash Flash

NEW FORBEARANCE PLANS – BY WEEK

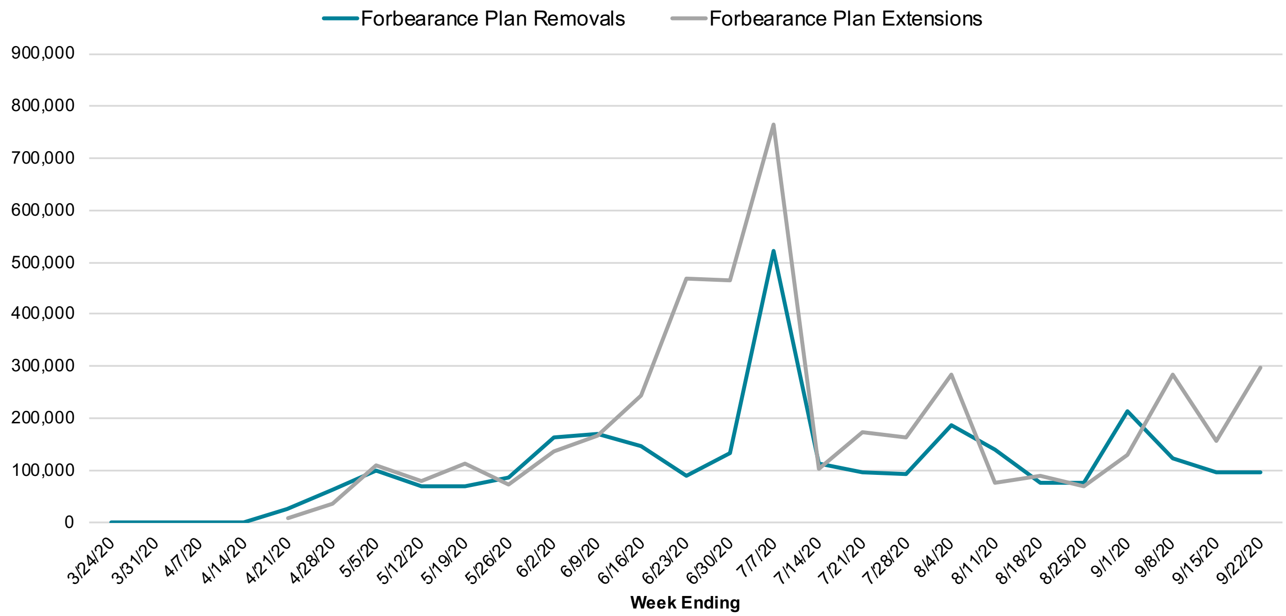


Source: McDash Flash

- Overall forbearance volumes are continuing their slow and steady improvement
- The number of loans in pandemic-related forbearance plans decreased by 357K (-9%) over the past 30 days as servicers continue to proactively work their way through the wave of plans set to expire in September
- The largest declines have been among portfolio-held loans, which are down 153K (-21%) over that period
- Active GSE forbearances have also seen significant reductions, falling by 154K (-10%) followed by FHA/VA forbearances, which are down 56K (-4%) over the past 30 days
- Strong improvement among GSE loans has pushed those forbearance volumes down to 1.33M, falling below FHA/VA loans in terms of active forbearance cases for the first time since the onset of the pandemic
- As of September 22, 3.6M loans (6.8% of all mortgages) remain in COVID-19-related forbearance plans
- Forbearance starts also noticeably declined in September, with more than 25% fewer starts over the first three weeks of the month than during the same span in August

AUGUST 2020 FORBEARANCE ACTIVITY UPDATE

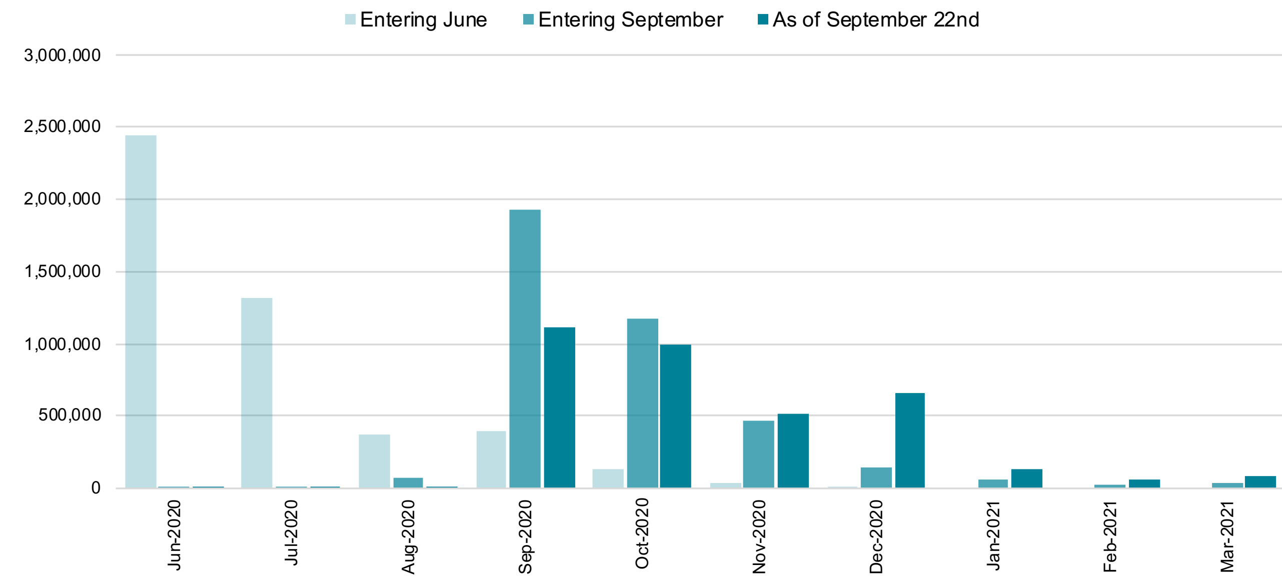
FORBEARANCE PLAN EXTENSIONS & REMOVALS – BY WEEK



Source: McDash Flash

SCHEDULED FORBEARANCE EXPIRATIONS

(LAST MONTH COVERED UNDER FORBEARANCE PLAN)

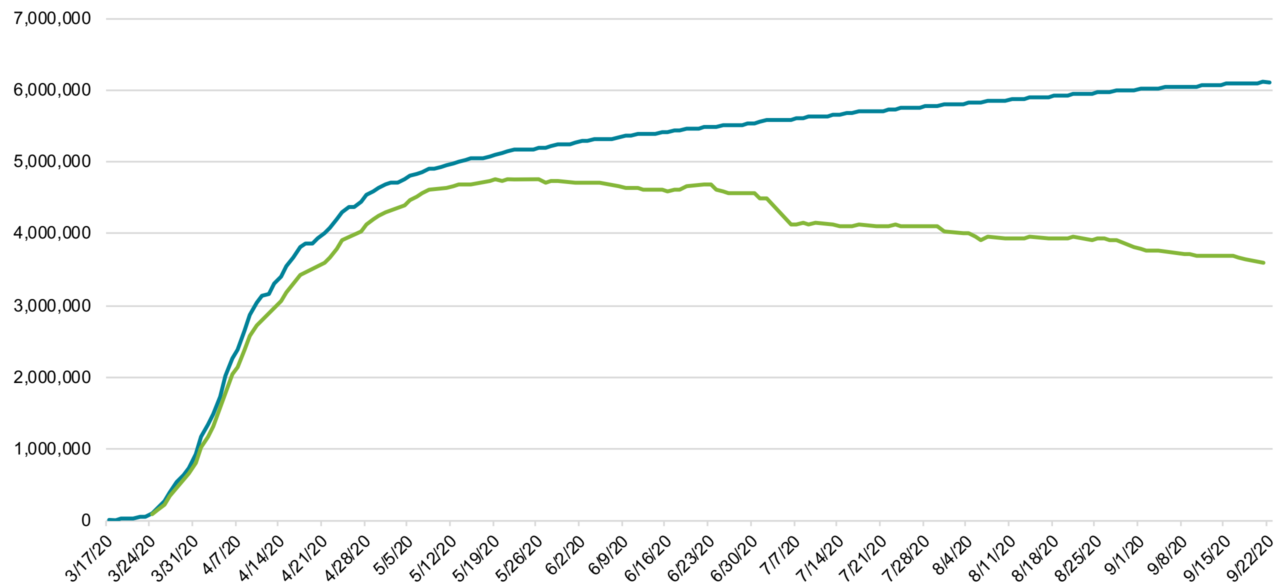


Source: McDash Flash

- Entering September, more than half of all active forbearances (nearly 2M) were set to expire in the month, meaning September's mortgage payment was the last payment covered under the forbearance plan
- Through the first three weeks of the month, that number has fallen to 1.1M as servicers have proactively worked through expiring forbearances
- The majority of forbearance plans continue to be extended, with nearly 740K plans extended over the first three weeks of the month and 316K loans removed over that same span
- Given the 1.1M remaining plans set to expire in September, we expect elevated levels of removal/extension activity over the new few weeks
- Another 1M forbearance plans are set to expire in October, setting up another wave of extension/removal activity as we get toward the end of the month
- Following October, we will be in a better position to gauge the outlook for the remainder of 2020 and early 2021 from a forbearance perspective

AUGUST 2020 FORBEARANCE ACTIVITY UPDATE

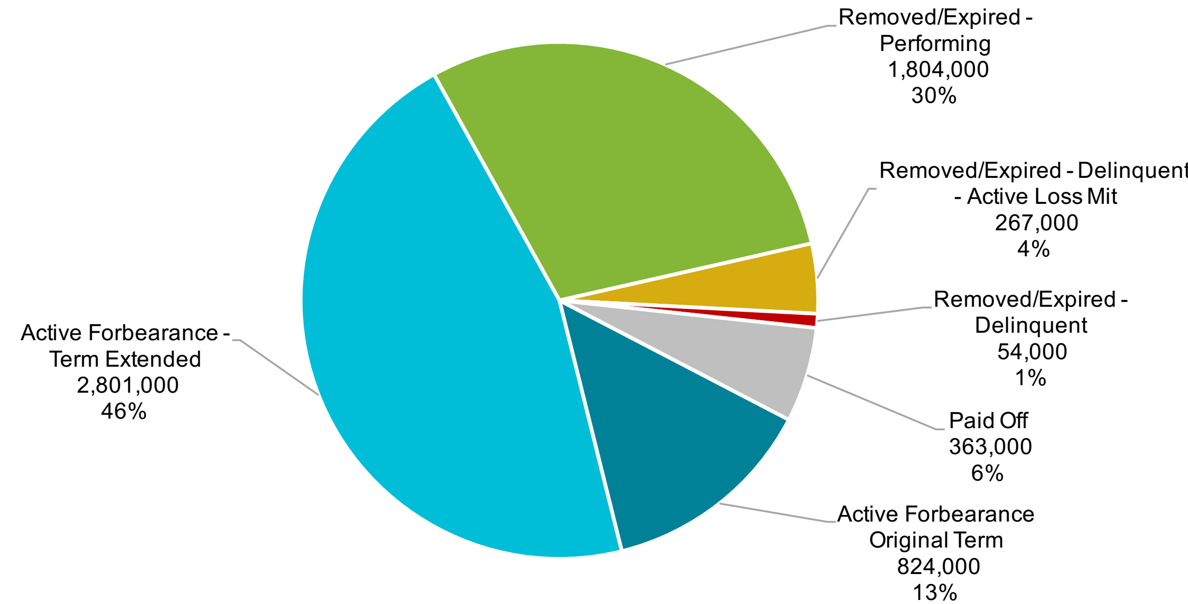
NUMBER OF FORBEARANCE PLANS OVER TIME



Source: McDash Flash

CURRENT STATUS OF COVID-19 RELATED FORBEARANCES

(STATUS AS OF SEPTEMBER 22ND 2020)

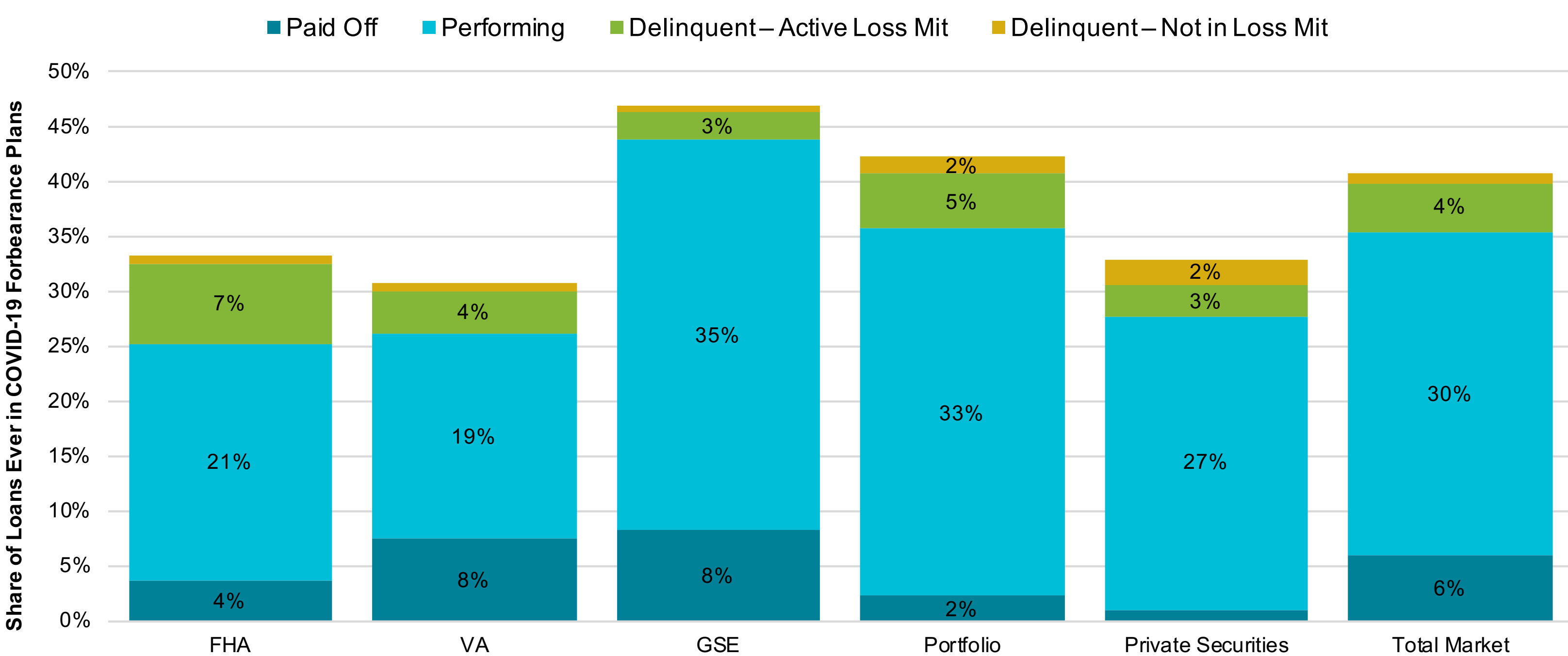


Source: McDash Flash

- Of the 6.1M borrowers who have been in COVID-19-related forbearance plans, 41% have since exited, with the vast majority of those (1.8M) currently performing on their mortgages
- Another 6% (363K) have since paid off their mortgages in full, either through refinancing or the sale of their home
- 267K (4%) currently remain past due on their mortgage, but are in an active loss mitigation status, suggesting they are working with their servicer to get back to a current status
- Just 54K loans are past due and not in active loss mitigation, and 70% of these were already delinquent in February before the pandemic began to impact mortgage performance

STATUS OF LOANS THAT HAVE LEFT COVID-19 RELATED FORBEARANCE PLANS

(REMAINING SHARE ARE STILL IN FORBEARANCE)



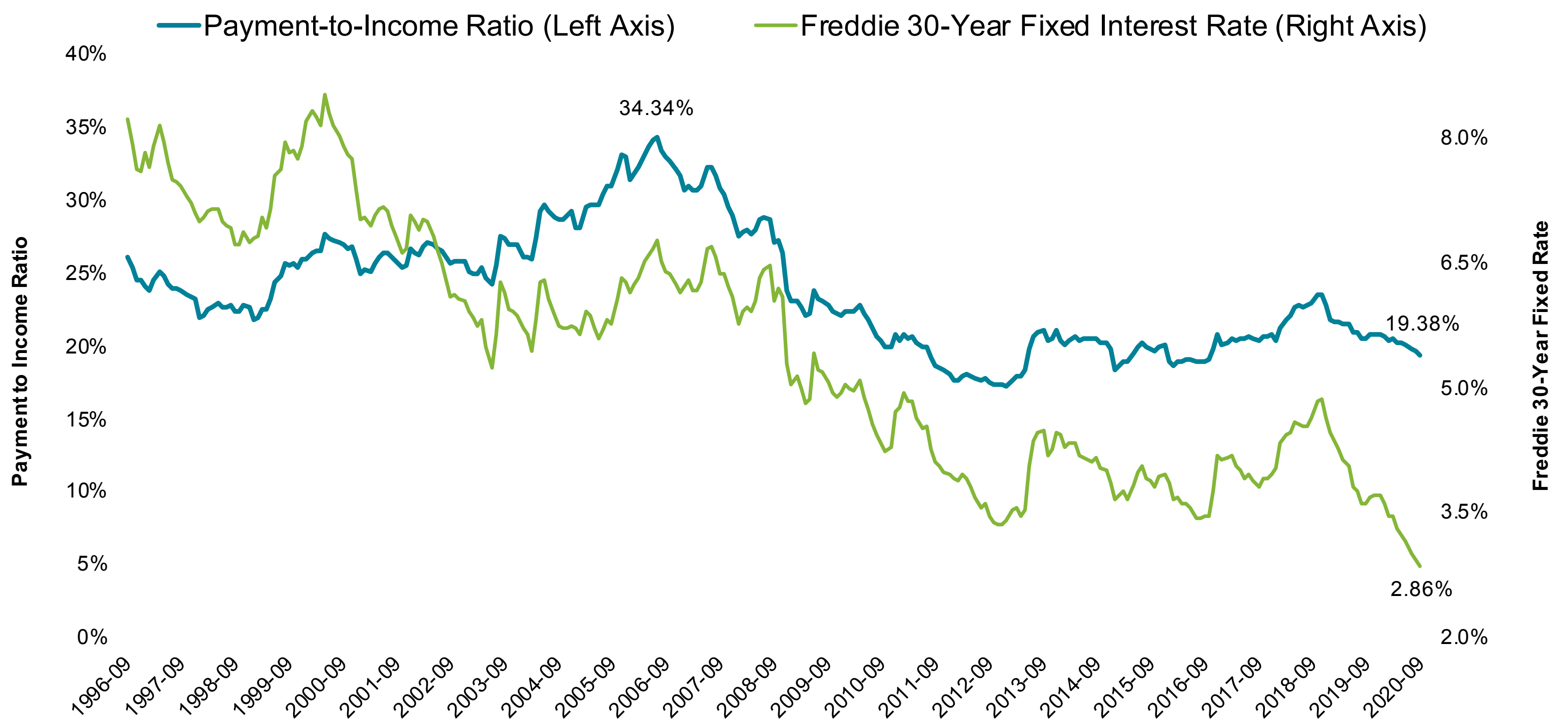
Analyzing the current status of loans that had entered COVID-19 forbearance plans since mid-March, we see that nearly half (47%) of GSE loans have now exited those plans

- 35% of that population are back to performing on their mortgage, with another 8% having paid off their mortgage in full – either through refinancing or the sale of their home – both of which are the highest such rates among any investor category
- FHA/VA loans have seen a significantly lower share of borrowers exit their forbearance plans, at 33% and 31% respectively
- Among FHA loans, 21% are performing, while 7% remain past due and in active loss mitigation; just 4% of FHA loans have been paid in full
- VA loans have seen a higher paid-in-full rate at 8%, while only 19% of COVID-19 forbearance loans are currently performing

AUGUST 2020 HOME PRICE AND EQUITY TRENDS

Here, we look at how current market conditions, compounded by an unprecedented public health crisis, along with record-low rates and housing inventory, have impacted affordability and tappable equity. This information has been compiled from Black Knight's Home Price Index and Collateral Analytics Daily Home Price Flash data as well as the company's McDash loan-level mortgage performance database. You may click on each chart to see its contents in high-resolution.

NATIONAL PAYMENT TO INCOME RATIO*



*The National Payment-to-Income Ratio is the share of median income needed to make the monthly principal and interest payment on the purchase of the median priced home using a 20% down 30-year fixed rate mortgage at the prevailing interest rate

Falling 30-year interest rates continue to improve home affordability across the U.S.

» As of September, it now takes 19.4% of the median household income to make the monthly payment on the average priced home, assuming a 20% down payment on a 30-year fixed rate mortgage at the prevailing interest rate

» That's an improvement of 0.4% over August and marks the strongest affordability in the housing market since October 2016

» Each of the 25 largest U.S markets are seeing their strongest affordability since Q1 2018, with 16 seeing the strongest affordability levels since 2016 (or prior)

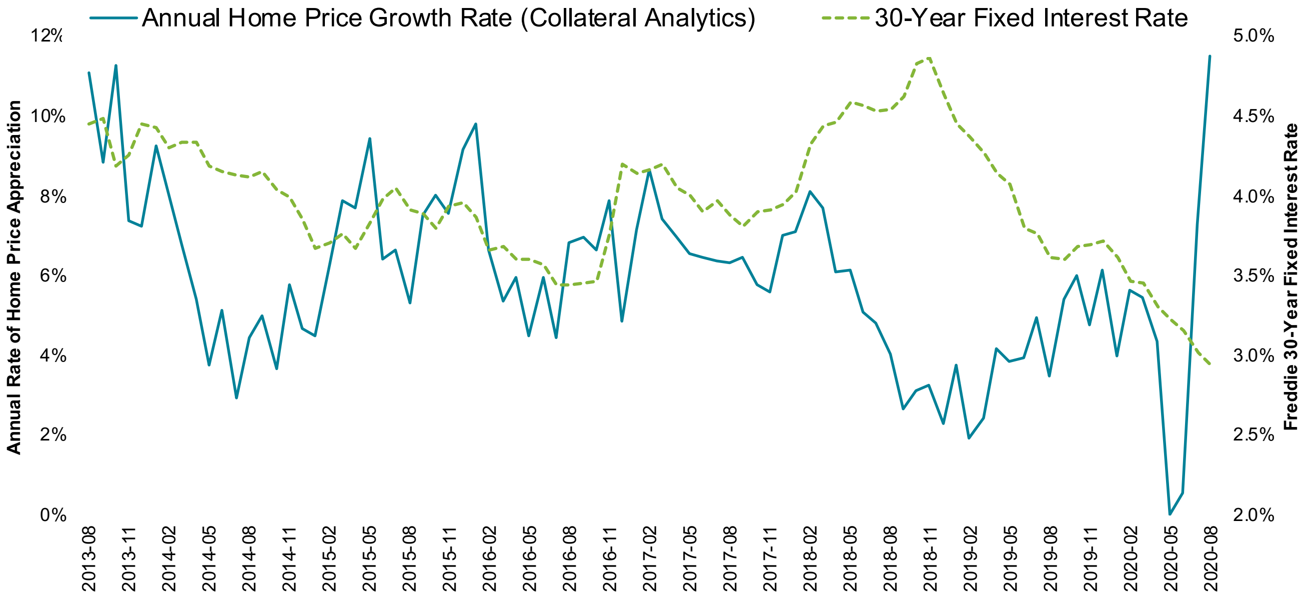
LAST TIME HOUSING WAS THIS AFFORDABLE – 25 LARGEST MARKETS			
Geography (CBSA)	Most Affordable Since (YYYYMM)	Current Payment--to-Income Ratio	Size Rank
Baltimore, MD	Pre-2005	15.6%	20
Houston, TX	201504	15.8%	5
Chicago, IL	201602	14.8%	3
Philadelphia, PA	201602	16.3%	6
San Diego, CA	201610	33.3%	17
San Francisco, CA	201610	34.4%	11
St. Louis, MO	201610	14.1%	19
Washington, DC	201610	17.9%	7
Dallas, TX	201610	17.1%	4
Los Angeles, CA	201610	41.1%	2
Miami, FL	201610	23.9%	8
New York-Newark, NY-NJ	201610	26.3%	1
Pittsburgh, PA	201610	14.8%	22
Portland, OR	201610	22.8%	24
Riverside, CA	201610	24.1%	12
San Antonio, TX	201611	17.2%	25
Boston, MA	201701	23.7%	10
Denver, CO	201701	22.5%	21
Detroit, MI	201702	13.4%	14
Minneapolis, MN	201702	15.6%	16
Seattle, WA	201702	25.2%	15
Phoenix, AZ	201801	20.2%	13
Tampa, FL	201801	19.0%	18
Charlotte, NC	201801	17.8%	23
Atlanta, GA	201801	15.2%	9

It's worth noting that current affordability is primarily a result of record-low rates rather than income growth, and a shift in rates could dramatically change the affordability landscape

» Detroit has the lowest payment-to-income ratio at 13.4%, while Los Angeles is the least affordable, with a 41.1% payment-to-income ratio

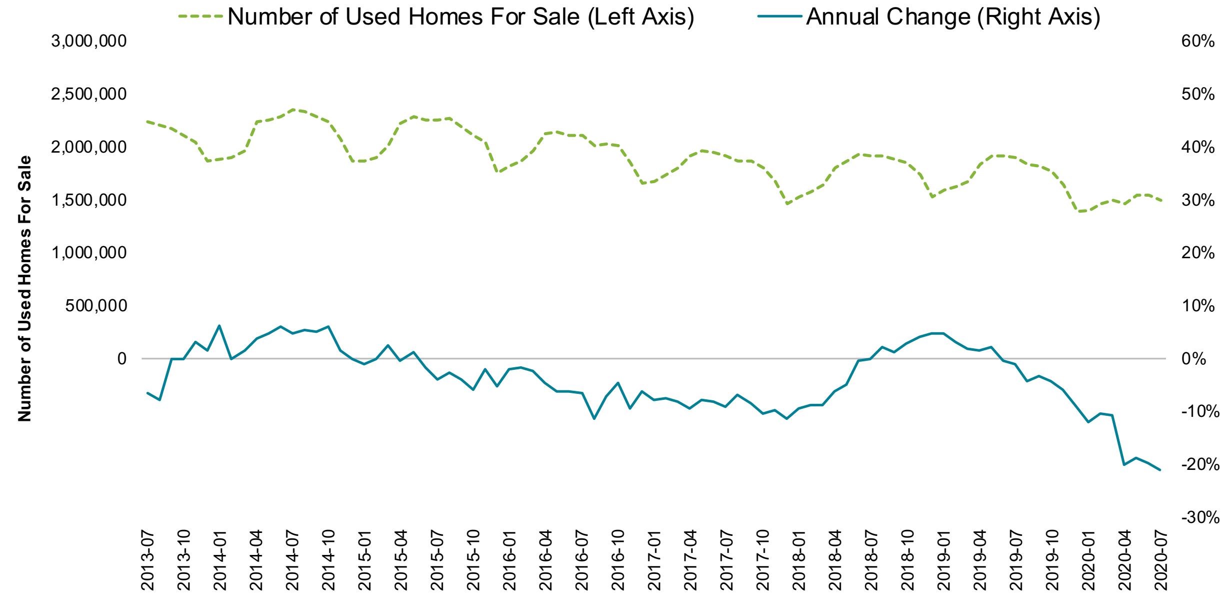
» While 41.1% is extremely high in comparison to other markets, this figure marks the most affordable housing has been in Los Angeles since late 2016

HOME PRICE APPRECIATION VS 30-YEAR FIXED INTEREST RATE



Source: Collateral Analytics

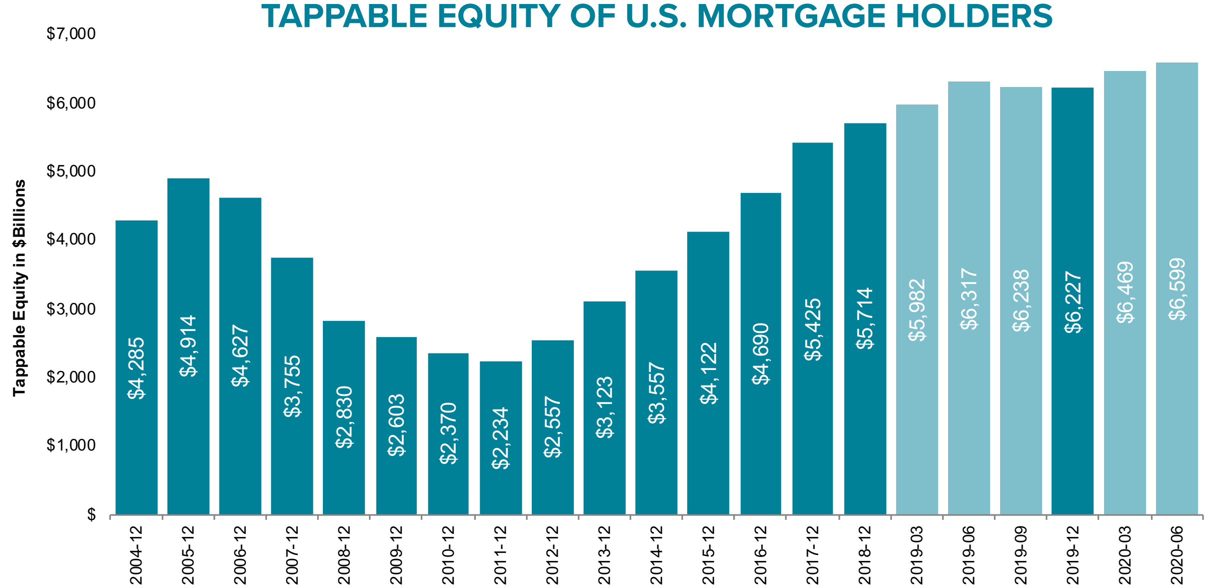
FOR SALE INVENTORY



Source: NAR

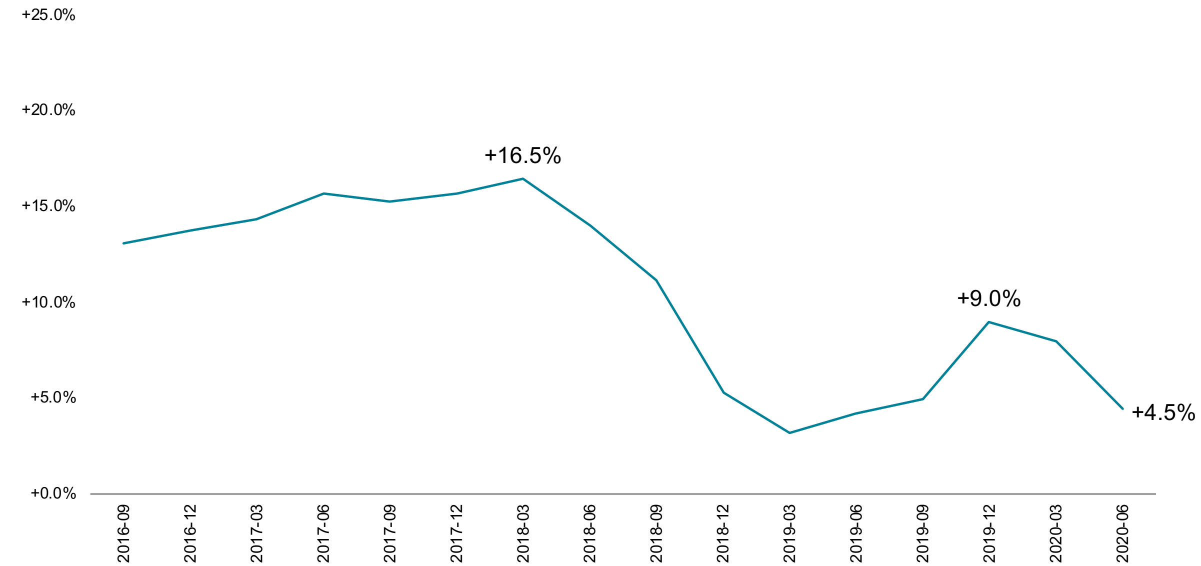
- Improved affordability levels may be better news for current homeowners rather than homebuyers
- While falling rates have increased buying power, the combination of record low rates and the lowest inventory levels in years have resulted in skyrocketing price growth
- As of the end of July, there were 1.5M existing homes for sale, down more than 20% from the year prior and the lowest July month-end number since the housing recovery began in 2012
- The seasonal inflow of homes for sale in 2020 was almost non-existent, likely due to homeowners concerned about listing their home for sale in the midst of a pandemic
- While home prices stagnated in May and June, price growth has since recovered in a big way
- August saw an annual home price growth rate of 11.5%, the highest since mid-2013, with early numbers from September suggesting record highs could be seen in coming months

TAPPABLE EQUITY OF U.S. MORTGAGE HOLDERS



Tappable Equity: Equity available on all residential properties with an existing mortgage before reaching a current CLTV of 80%

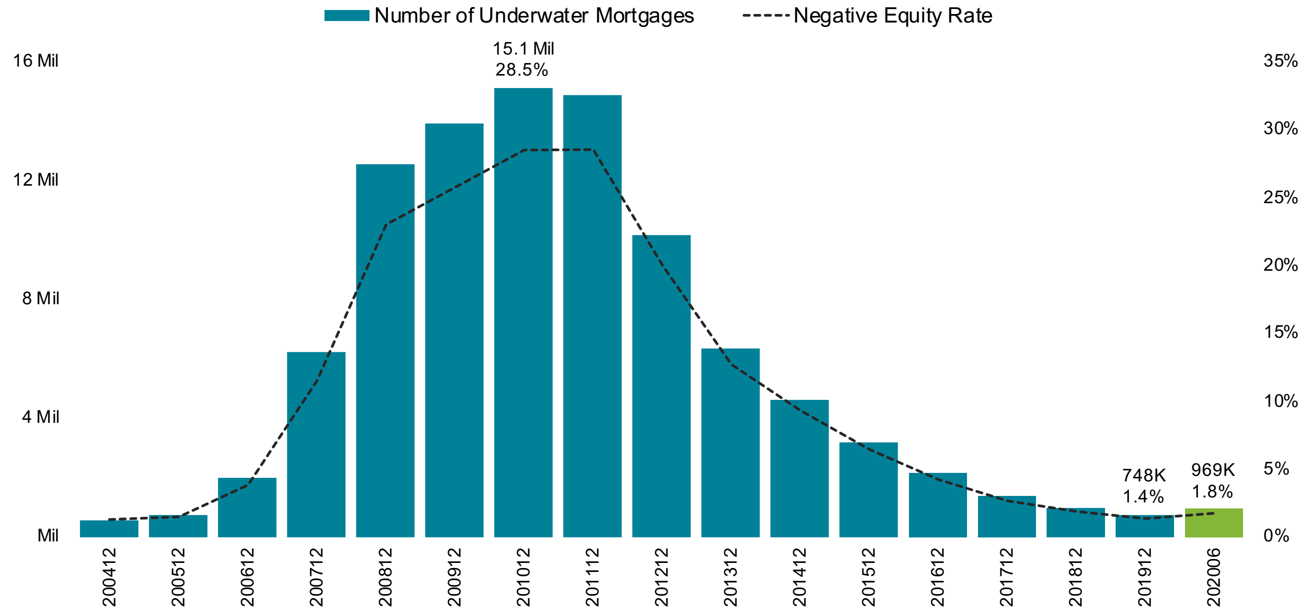
ANNUAL GROWTH RATE OF TAPPABLE EQUITY



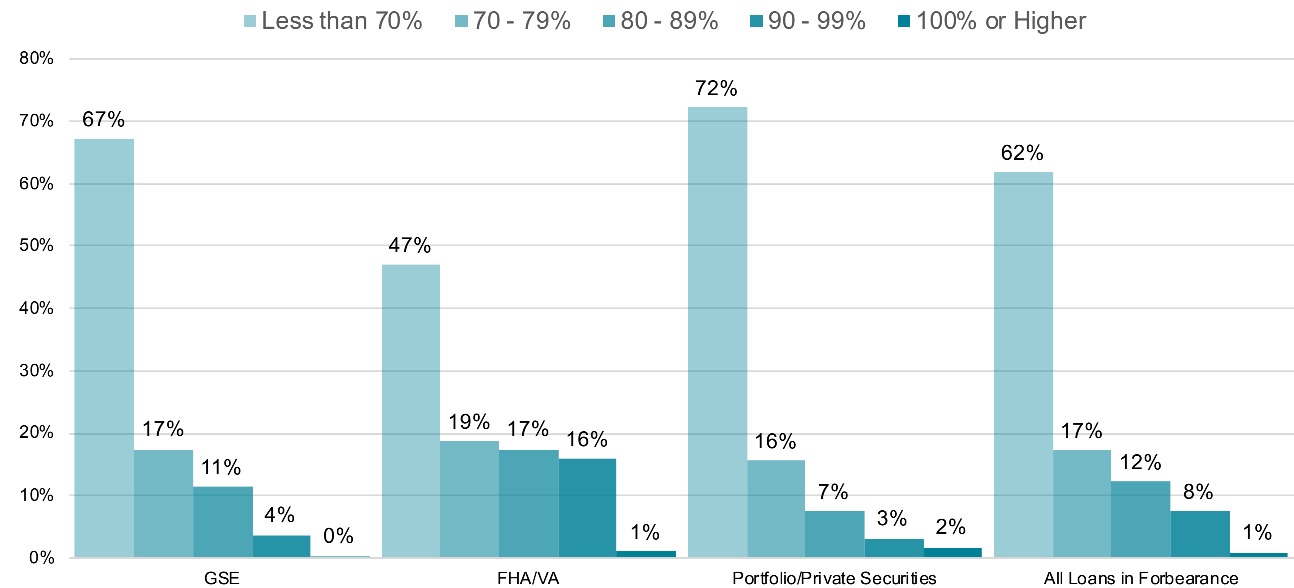
Source: McDash Property Module

- » Rising home prices continue to improve equity positions across the country
- » Even when applying distressed valuations to the 2.5M+ homes now seriously delinquent or in active foreclosure, tappable equity still hit a new record high in Q2 2020 at $6.6T
- » In total, nearly 45M homeowners have tappable equity in their homes, the largest volume ever
- » The average homeowner now has nearly $125K in tappable equity; an increase of more than $3,200 from last year – also a record
- » The slowing of tappable equity growth in Q2 was largely due to the increase in serious delinquencies and distressed valuations applied to those properties
- » The weighted average combined loan-to-value (CLTV) for homes with a mortgage is 51.5%, again factoring in distressed home prices for seriously delinquent borrowers
- » These strong equity positions help to provide a backstop to elevated delinquency levels and slow recovery from COVID-19-related impacts

NEGATIVE EQUITY VOLUMES AND RATES



DISTRIBUTION OF LOANS IN ACTIVE FORBEARANCE BY CURRENT COMBINED LTV

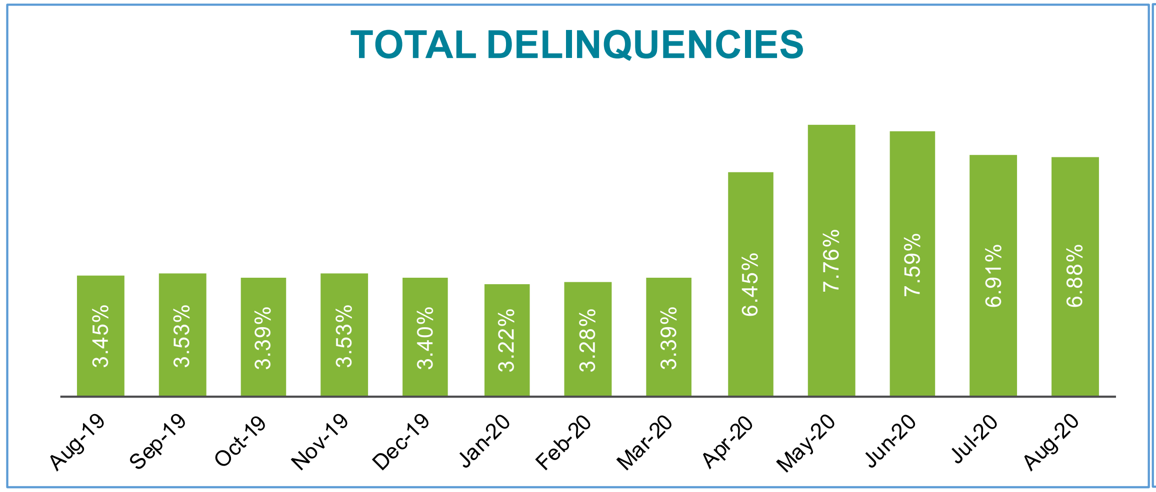


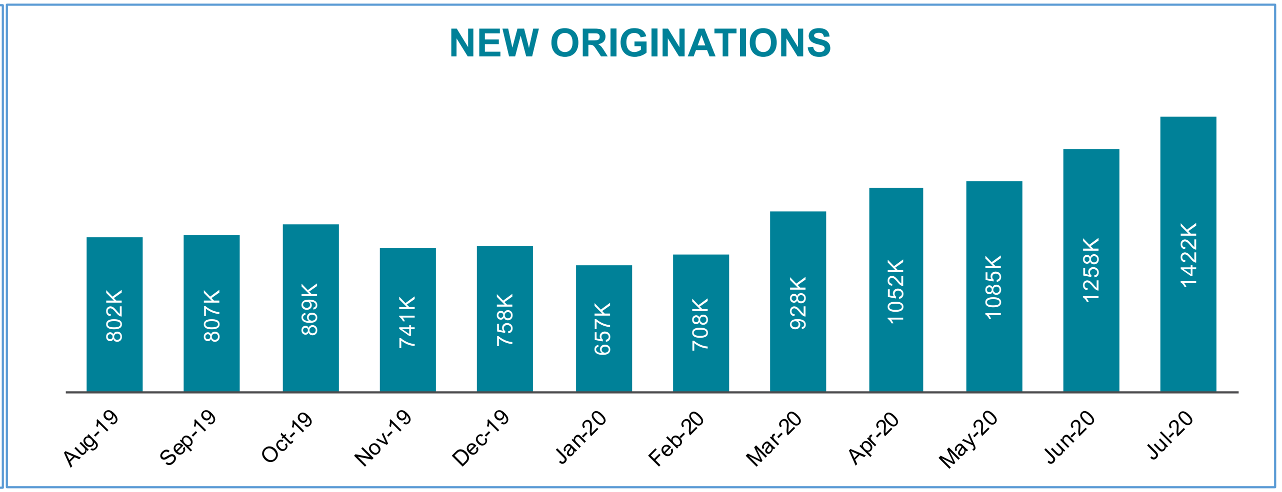
- Rising home prices continue to keep the number of underwater borrowers in check, despite the rising number of homeowners that are seriously delinquent
- Even applying distressed valuations to properties 90 or more days past due, the national negative equity rate has risen only 40 basis points YTD, from 1.4% of all first-lien mortgages at the start of the year to 1.8% as of mid-2020
- Fewer than 1M mortgage holders currently owe more than their homes are worth
- Looking at the current CLTV of loans in forbearance shows relatively strong equity positions there as well
- Only 9% of borrowers in forbearance have less than 10% equity in their homes, with just 1% underwater
- GSE and Portfolio/PLS loans in forbearance have even stronger equity positions, with 4% and 5% respectively having less than 10% equity in their homes
- Equity positions are more of a challenge among FHA/VA loans in forbearance, of which 17% have less than 10% equity
- In total, an estimated 172K loans are in forbearance, have missed three or more payments under their plans, and have less than 10% equity in their homes
- With 111K such loans, FHA/VA loans make up nearly 2/3 of that population

AUGUST 2020 DATA SUMMARY

	Aug-20	Monthly Change	YTD Change	Yearly Change
Delinquencies	6.88%	-0.53%	113.73%	99.22%
Foreclosure	0.35%	-1.43%	-24.45%	-27.31%
Foreclosure Starts	6,000	-39.39%	-85.98%	-83.43%
Seriously Delinquent (90+) or in Foreclosure	4.77%	4.43%	280.78%	259.62%
New Originations (data as of Jul-20)	1422K	13.0%	87.5%	87.0%

	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	Oct-19	Sep-19	Aug-19
Delinquencies	6.88%	6.91%	7.59%	7.76%	6.45%	3.39%	3.28%	3.22%	3.40%	3.53%	3.39%	3.53%	3.45%
Foreclosure	0.35%	0.36%	0.36%	0.38%	0.40%	0.42%	0.45%	0.46%	0.46%	0.47%	0.48%	0.48%	0.48%
Foreclosure Starts	6,000	9,900	5,900	5,100	7,400	27,600	32,300	42,800	39,500	33,500	43,900	39,400	36,200
Seriously Delinquent (90+) or in Foreclosure	4.77%	4.57%	3.89%	1.57%	1.28%	1.18%	1.22%	1.25%	1.27%	1.30%	1.31%	1.32%	1.33%
New Originations		1422K	1258K	1085K	1052K	928K	708K	657K	758K	741K	869K	807K	802K





STATE-BY-STATE RANKINGS BY NON-CURRENT LOAN POPULATION

State	Del %	FC %	NC %	Year/Year Change in NC%	State	Del %	FC %	NC %	Year/Year Change in NC%	State	Del %	FC %	NC %	Year/Year Change in NC%
National	6.9%	0.3%	7.2%	84.3%	National	6.9%	0.3%	7.2%	84.3%	National	6.9%	0.3%	7.2%	84.3%
MS	11.3%	0.4%	11.7%	13.8%	IN*	7.3%	0.5%	7.8%	36.4%	KY*	5.6%	0.4%	5.9%	44.0%
LA*	10.7%	0.6%	11.3%	46.5%	AR	7.4%	0.3%	7.8%	28.3%	DC	5.6%	0.3%	5.9%	129.1%
HI*	8.3%	1.3%	9.6%	158.9%	VT*	7.0%	0.7%	7.7%	73.5%	MI	5.8%	0.1%	5.9%	53.4%
NY*	8.2%	1.3%	9.4%	88.9%	IL*	7.2%	0.5%	7.7%	82.5%	AZ	5.6%	0.1%	5.7%	108.9%
FL*	8.6%	0.6%	9.1%	119.9%	SC*	7.3%	0.4%	7.7%	55.0%	NH	5.4%	0.2%	5.6%	58.3%
CT*	8.4%	0.7%	9.0%	82.7%	DE*	7.0%	0.5%	7.5%	49.4%	WI*	5.3%	0.3%	5.6%	51.2%
TX	8.8%	0.2%	9.0%	88.0%	ME*	6.6%	0.9%	7.5%	41.0%	IA*	5.1%	0.4%	5.5%	34.8%
NJ*	8.5%	0.5%	9.0%	105.3%	TN	6.9%	0.2%	7.1%	52.7%	CA	5.4%	0.1%	5.5%	170.4%
MD*	8.6%	0.4%	9.0%	81.5%	KS*	6.7%	0.3%	7.0%	58.4%	MN	5.2%	0.1%	5.3%	104.6%
NV	8.6%	0.4%	9.0%	202.0%	OH*	6.4%	0.5%	6.9%	48.1%	ND*	4.9%	0.3%	5.2%	135.2%
GA	8.8%	0.2%	9.0%	77.2%	NM*	6.4%	0.5%	6.9%	61.3%	UT	5.0%	0.1%	5.1%	112.4%
AK	8.7%	0.2%	8.9%	179.3%	NC	6.6%	0.2%	6.8%	61.7%	SD*	4.5%	0.3%	4.8%	69.7%
AL	8.4%	0.2%	8.6%	29.2%	NE*	6.2%	0.2%	6.4%	61.3%	CO	4.6%	0.1%	4.7%	167.9%
WV	8.0%	0.4%	8.4%	32.0%	VA	6.2%	0.1%	6.3%	88.3%	OR	4.5%	0.2%	4.6%	150.8%
OK*	7.6%	0.6%	8.2%	46.8%	MA	5.9%	0.3%	6.2%	65.3%	MT	4.4%	0.2%	4.6%	81.1%
RI	7.5%	0.6%	8.1%	52.7%	WY	5.9%	0.2%	6.1%	97.8%	WA	4.3%	0.2%	4.5%	134.3%
PA*	7.6%	0.5%	8.1%	51.5%	MO	5.8%	0.2%	6.0%	48.9%	ID	3.7%	0.1%	3.8%	91.5%

Indicates Judicial State

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TOTAL ACTIVE COUNT:	All active loans as of month-end including loans in any state of delinquency or foreclosure. Post-sale loans and loans in REO are excluded from the total active count.
DELINQUENCY STATUSES (30, 60, 90+, ETC):	All delinquency statuses are calculated using the MBA methodology based on the payment due date provided by the servicer. Loans in foreclosure are reported separately and are not included in the MBA days delinquent.
90-DAY DEFAULTS:	Loans that were less than 90 days delinquent in the prior month and were 90 days delinquent, but not in foreclosure, in the current month.
FORECLOSURE INVENTORY:	The servicer has referred the loan to an attorney for foreclosure. Loans remain in foreclosure inventory from referral to sale.
FORECLOSURE STARTS:	Any active loan that was not in foreclosure in the prior month that moves into foreclosure inventory in the current month.
NON-CURRENT:	Loans in any stage of delinquency or foreclosure.
FORECLOSURE SALE / NEW REO:	Any loan that was in foreclosure in the prior month that moves into post-sale status or is flagged as a foreclosure liquidation.
REO:	The loan is in post-sale foreclosure status. Listing status is not a consideration, this includes all properties on and off the market.
DETERIORATION RATIO:	The ratio of the percentage of loans deteriorating in delinquency status vs. those improving.