



First American CoreLogic

CONSUMER BENEFITS OF GOVERNMENT MORTGAGE FINANCE PROGRAMS IN 2009



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Introduction and Summary

- > With recent government action to reduce mortgage rates, we estimate that \$11.5b in total mortgage payment savings will accrue to U.S. borrowers over the next five years from those who have refinanced in the first half of 2009.
- > More than 1 trillion dollars in U.S. residential mortgage financings occurred from January to June of 2009 stemming from government efforts to reduce mortgage debt burdens, including \$790b of refinancing.
- > These refinanced loans, in turn, will result in \$2.3 billion of mortgage payment savings for U.S. consumers who refinanced just in the first six months of 2009
- > Median individual monthly payments by consumers who have refinanced over this period have fallen by \$120, a 10.5% reduction from their old mortgage payment.

Government-led initiatives to revive the US economy have resulted in lower mortgage interest rates. The purpose of this study is to estimate the effect of interest rate reduction on refinance activity which subsequently bolsters the US economy by increasing consumer's disposable income. Refinancing activity in the first half of 2009 was robust, with some labeling it a refinance "boom". The mortgage industry increased refinance loan production dramatically in the first quarter of 2009 to 74% and 69% in the second quarter, respectively, on total originations of \$448b (Q1) and \$664b (Q2) based on Mortgage Bankers Association (MBA) data. This is significant as it compares to refinance shares of 35% and 37% in the third and fourth quarters of 2008, respectively, on total originations of \$340b (Q3) and \$380b (Q4), indicating that government efforts to encourage refinancing have been largely successful.

Given the economic recession that the United States is experiencing and the fiscal and monetary stimulus being applied by the United States government, what are the economic benefits from this refinancing activity? The answer lies in the purpose and results behind government action: a direct result of Federal Reserve easing measures and the Making Home Affordable Refinance program (HARP) was a reduction in mortgage interest rates and an immediate corresponding increase in refinances. It is postulated that this refinance boom was much less likely for equity extraction, but rather mortgage debt reduction.

Assuming this is the case, the resultant reduction in monthly debt burdens for the consumer is a fiscal stimulus benefit that accrues to the overall economy. Lower mortgage payments mean more money in the consumer's pocket for other purposes. Realistically, if some share of this debt relief is used for the purpose of consumption it could have a direct and positive impact on the economy. In this analysis because the refinance transaction is observed it is assumed that the borrower had decided that the act of refinancing was "in the money" after accounting for the change in payment as well as the transaction cost associated with the act of refinancing. With the use of collected and aggregated public records data on sale and mortgage transaction activity it is possible to estimate the degree of debt burden reduction, not accounting directly for associated transaction costs, and the magnitude of dollars saved as a result of the refinance boom.

Methodology

Data Source: First American CoreLogic public record database covering 96% of the U.S. population

The data that is used for this study is sourced from the First American CoreLogic public record real estate property and ownership information database covering 96% of the U.S. population for sales transactions and 85% of the U.S. population for mortgage transactions. In this database sales transactions, grant deeds, as well as mortgage transactions, deeds of trust, are collected. The universe of mortgage refinances that were recorded in the public record between October 1st 2008 and the middle of June 2009 is identified from the deeds of trust collected and residing in this database. October 2008 was used as the starting point for the analysis because it roughly represents the first full month after the financial crisis took hold. For each mortgage refinance identified, the transaction history for the property being refinanced was analyzed to identify the prior mortgage. The average tenure between mortgage transactions is just over 3 years with 75% of the mortgages being no more than five years apart. We removed from the analysis any outlier observation where the original mortgage was more than 15 years prior to the refinance transaction. The data was further cleansed to remove loans from private party lenders, outlier mortgage amounts (large or small), and loans where the recent transaction was not clearly a refinance of the prior mortgage on the property.

Estimation of Mortgage Payment Differences

In order to estimate the difference in mortgage payments, we need to estimate the payment amount before and after the refinance. Public records sometimes include this information, but not always. Where we do not know the mortgage terms, we make reasonable estimates. The public record source data is ideal for this analysis because it is a source with a complete address for each record. The type of loan (fixed or adjustable) and, if an adjustable mortgage (ARM), the details on payment adjustments in ARM rider documents are available. We know the date that the loan was recorded (which is typically close to the date the loan was funded) and can use this date to estimate the prevailing mortgage interest rates. If either the prior or current mortgage was a fixed rate mortgage we used the Freddie Mac average 30 year fixed rate mortgage rate at the time of the recordation, the loan amount from the deed of trust, and assumed a 30 year term to calculate the mortgage payment. If either the prior or current mortgage was an ARM the original interest rate and term were derived from the ARM rider, and the loan amount was based on the deed of trust to calculate the mortgage payment. Once the mortgage payments were estimated for the most recent refinance transaction, we compared that to the original mortgage to arrive at a payment differential between the two loans.

Results

Table 1 summarizes the results by month. Refinance volumes were relatively low in the last quarter of 2008, but then quickly doubled in January as quantitative easing measures on the part of the Federal Reserve positively influenced mortgage interest rates. In total since October 2008, 2.24 million loans have been refinanced¹, representing \$3.2b per month in mortgage payments. The prior loans associated with these refinances totaled \$3.4b a month in monthly mortgage payments. The result of refinancing was \$151mm per month in refinance savings for U.S. consumers from October 2008, or nearly \$1.8b a year.

Table 1. Monthly Mortgage Payment Savings

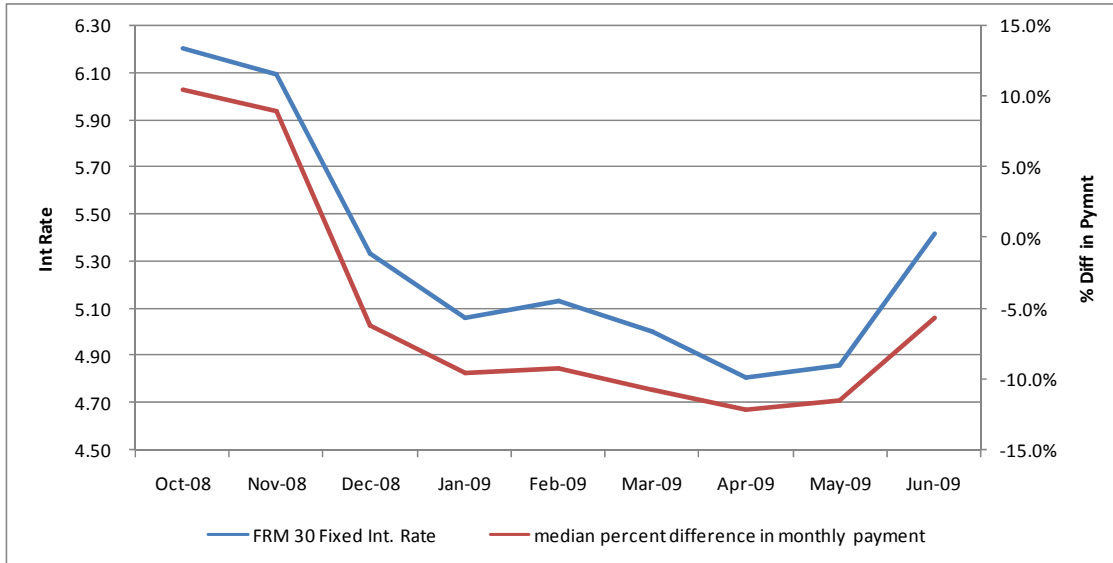
Origination Date	# loans ¹	Total monthly payments at origination of prior loan	Total monthly payments at origination of current	Median percent difference in monthly payment	Median difference in monthly payment
Oct-08	136,011	\$204,145,518	230,611,772	10.5%	\$106.95
Nov-08	84,882	\$126,443,276	\$141,682,973	8.9%	\$84.32
Dec-08	162,407	\$255,653,330	\$253,938,258	-6.2%	-\$67.27
Jan-09	324,347	\$482,003,448	\$453,628,474	-9.6%	-\$110.90
Feb-09	378,700	\$559,246,885	\$529,064,228	-9.2%	-\$105.32
Mar-09	380,339	\$577,842,707	\$535,343,490	-10.8%	-\$122.15
Apr-09	380,294	\$571,466,911	\$522,005,814	-12.1%	-\$140.12
May-09	324,875	\$488,356,648	\$449,821,683	-11.5%	-\$132.48
Jun-09	65,169	\$103,484,891	\$101,163,205	-5.7%	-\$66.70
Overall	2,237,024	\$3,368,643,614	\$3,217,259,897	-8.9%	-\$98.95

In the last two columns of Table 1 the median percent difference and the median dollar difference in monthly mortgage borrower payments is calculated. The percentage reduction in payments peaked in April and has moderated in May and June. Figure 1 compares the median percent difference over the 9 month analysis period to the Freddie Mac average 30 yr fixed interest rate. One can see the strong correlation between rate movements and consumer savings. The lower the interest rate the larger the savings relative to the consumer's prior mortgage. In fact, in October and November the median percent difference was positive, indicating that consumer mortgage payments typically increased due to refinancing. It was not until

¹ The sample of loans started with 2,862,214 million mortgage refinances between October 2008 and June 2009. Based on coverage of approximately 85% this indicates a universe of 3,367,311 million refinances completed in the 8 months ending in June 2009. After requiring a prior mortgage be identified and sufficient and reasonable information be provided in the fields necessary for payment calculation the sample size was reduced to 2.23 million for the purpose of this analysis.

January when mortgage rates reached the 5% and below territory that refinance activity increased and consumers' new payments were typically less. Clearly consumers acted rationally and took advantage of the low rate environment in the late winter and early spring.

Figure 1-Median % Payment Savings Relative to Mortgage Rates



Considering just January 2009 forward, when the refinance volumes increased most, (noting that June was not a complete month) 1.8 million refinance transactions occurred, representing \$2.6b per month in mortgage payments. The prior loans associated with these refinances totaled \$2.8b per month in monthly mortgage payments. The net savings in monthly mortgage payments from the refinance activity over the first six months of this year was \$191mm per month. **Annualized, consumers who have refinanced since January 2009 will save \$2.3 billion per year of mortgage debt obligations.**

When the median payment difference is measured directly the typical consumer savings peaked in April at \$140 a month. While possibly small in a single month, it would amount to \$1,680 in a year and \$8,400 over 5 years. For all of the consumers who refinanced in the first half of 2009 the median monthly payment savings was \$120. Over a year this would be \$1,440 and over five years would amount to \$7,200 in total savings.

Conclusion

One benefit of quantitative easing policies on the part of the Federal Reserve and refinance activity made possible by HARP was reduced mortgage rates in the latter part of 2008 and into 2009. The resulting expansion of loan origination capacity of the mortgage industry in the late winter and early spring of 2009 allowed many consumers to reduce their monthly mortgage debt obligations and “put more money in their pockets”. This permanent increase in monthly income is likely to increase consumption on the part of benefited individuals and help moderate the severity of the economic recession. The mortgage payment savings for the refinanced loans in the first half of 2009 amounts to an estimated \$11.5b consumer savings over the next five years. Additionally the refinanced loans are likely to place borrowers in more long term sustainably affordable debt obligations as the underwriting standards over this time frame were more stringent and reliant on documented assessments of an individual's ability to pay their mortgage over the long term, reducing the risk of future foreclosure.

About First American CoreLogic

First American CoreLogic, a member of The First American Corp. (NYSE:FAF) family of companies, is the largest provider of real estate, property and ownership data and advanced analytics for information on foreclosures, delinquencies, median home prices, home price indices, home valuations, sales activity and mortgage loan originations. This data represents 99.7 percent of the United States population, 145 million parcels (97 percent of all properties), 98.5 percent of U.S. ZIP codes, 3,085 counties located in all 50 states and the District of Columbia, more than 50 million active first lien and home equity mortgages, and 96 percent of non-agency mortgage securities. First American CoreLogic products and services enable customers to better manage credit and mortgage risk, protect against fraud, acquire and retain customers, mitigate loss, decrease mortgage transaction cycle time, more accurately value properties and determine real estate trends and market performance. More information about First American CoreLogic can be found at www.facorelogic.com.

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