

2020

2020 Default Servicing Industry Insights

- Executive summary
- Economic & Housing Outlook
- Foreclosure & REO Inflow Expectations
- Foreclosure Prevention Plans
- Foreclosure Pricing Strategies



AUCTION.COM
MARKET RESEARCH & ANALYSIS

Most Default Servicers Expect Foreclosures to Increase in 2020 Despite no Economic Recession

- **89 Percent Expect Increase in Foreclosure Inflow from Government-Insured Loans**
- **Majority Expect Increased Foreclosure Inflow in Five of Seven U.S. Regions**
- **68 Percent Plan to Increase Loss Mitigation Actions**
- **41 Percent Plan to Price More Aggressively to Sell to Third-Party Buyers at Foreclosure Auction**

Irvine, Calif. — Feb. 25, 2020 — Auction.com, the nation's leading distressed real estate marketplace, today announced the results of its 2020 Default Servicing Insights report, based on a survey of more than 40 of the nation's largest bank and nonbank default servicing clients along with representatives from government agencies involved in servicing and disposition of distressed properties.

Auction.com clients collectively account for 87 percent of all mortgage servicing volume nationwide based on an analysis of mortgage servicing data from [Inside Mortgage Finance](#). Survey responses were submitted between Nov. 19 and Dec. 20, 2019, and the survey included questions regarding clients' 2020 outlook for the

U.S. economy and housing market, along with foreclosure and REO inflow expectations, foreclosure prevention plans, and foreclosure pricing strategies for the coming year.

High-level findings from the survey:

- Most respondents said they do not expect an economic recession in 2020.
- Two-thirds expect their foreclosure and REO inflow to increase in 2020.
- 89 percent expect an increase in foreclosure and REO inflow from government-insured loans.
- The majority expect foreclosure and REO inflow to increase in five of seven U.S. regions.
- 41 percent plan to price more aggressively to sell to third parties at foreclosure auction in 2020, with the remainder planning either no change in pricing strategy or less aggressive pricing.
- Eight out of 10 consider REO holding costs either the primary or an important factor in determining their foreclosure auction pricing strategy.



“Auction.com clients are armed with the disruptive technologies they need to most effectively and responsibly handle the increase in foreclosure volume most are expecting in 2020. Those technologies empower them to flexibly select the optimal disposition strategy based on property and loan characteristics, market conditions and myriad other factors, and to make real-time pricing adjustments that respond to data-driven insights from our robust, nationwide marketplace.”
-- Jason Allnutt, CEO, Auction.com

59 Percent Expect No Economic Recession in 2020

But 77 percent of respondents from nonbank servicers expect a recession

The majority of Auction.com clients surveyed (59 percent) said they expect no economic recession in 2020, although there was a dissenting opinion from a subset of nonbank clients.

Clients who said they work for nonbanks represented 21 percent of all survey respondents, and 77 percent of that nonbank minority said they expect an economic recession in 2020, in sharp contrast to the majority opinion.

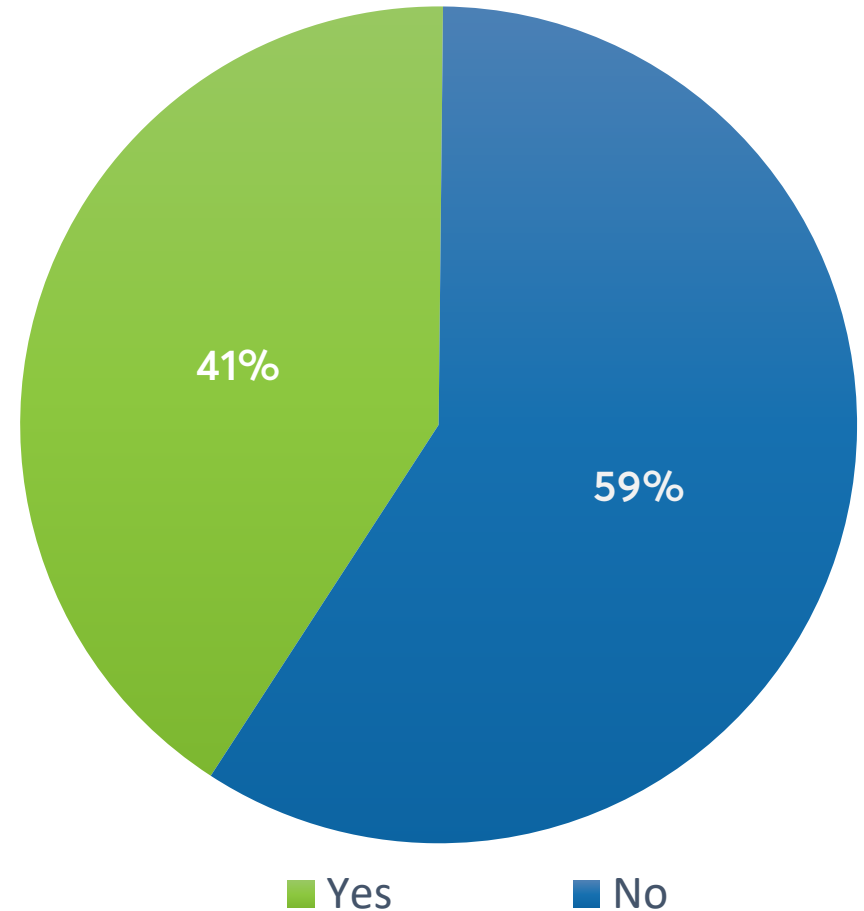
67 percent of nonbank survey respondents expect a housing downturn in 2020 compared to only 30 percent of all other respondents.

Among the other 79 percent of respondents — which included those working for banks, GSEs, nonperforming loan investors and other institutions — only 31 percent said they expect an economic recession in 2020.

Majority Expect No Housing Downturn

Most survey respondents (54 percent) also said they don't

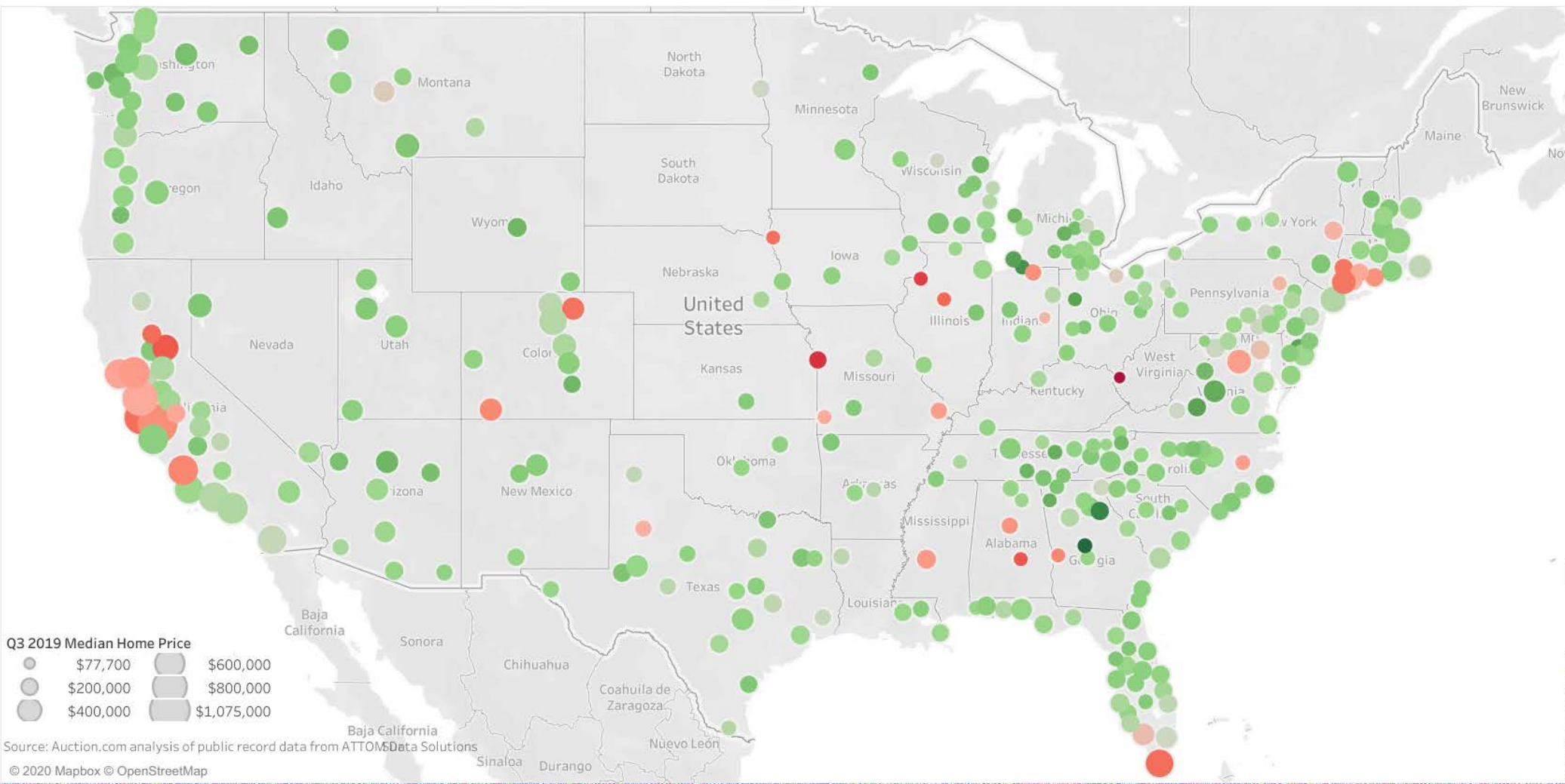
Do you expect an economic recession in 2020?



expect a housing downturn in 2020, but once again a dissenting minority opinion was provided by the nonbank servicer subset. Sixty-seven percent of nonbank respondents said they expect a housing downturn to occur during the year while only 30 percent of all other respondents said they expect a housing downturn in 2020.

Q3 2019 Median Home Price Appreciation by Metro Area

Q3 2019 Annual Home Price Appreciation



Two-Thirds Expect Foreclosure and REO Inflow to Increase in 2020

40 percent peg increase at above 10 percent

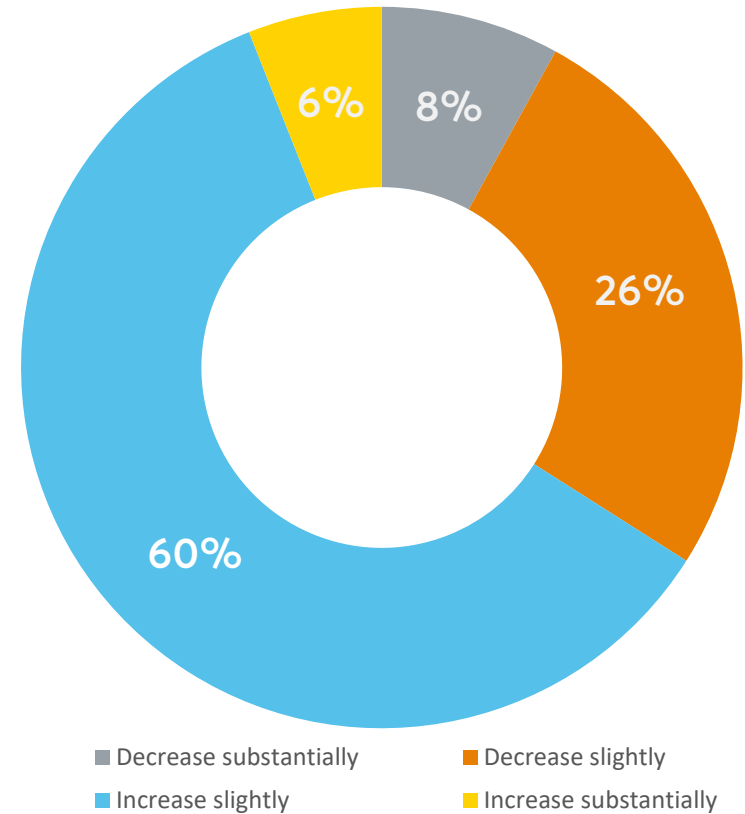
Although most in the default servicing industry do not expect a national housing downturn or economic recession in 2020, 66 percent of those surveyed said they expect to see their own organization's foreclosure and bank-owned (REO) inflow increase for the year.

Among those expecting an increase in inflow, 35 percent said the increase will be in the range of 11 to 20 percent while 30 percent said the increase will be between 6 and 10 percent and another 30 percent said the increase will be between 1 and 5 percent.

“There is historical precedent for an increase in foreclosures without a national economic or housing downturn.”

“There is historical precedent for an increase in foreclosures without a national economic or housing downturn, most notably following the Savings & Loans crisis in the mid-1980s,” said Daren Blomquist, VP of market economics at Auction.com.

In 2020, your expected foreclosure and REO inflow will:



Q3 2019 Foreclosure Auction Inflow at 2.5-Year High

Foreclosure auction inflow into the Auction.com platform increased to a 2.5-year high in Q3 2019. Foreclosure inflow decreased in Q4 2019 compared to the previous quarter but was still up 3 percent on a year-over-year basis — the seventh consecutive quarter with an annual increase.

89 Percent Expect Government-Insured Inflow to Increase in 2020

65 percent expect increase in bank-owned inflow

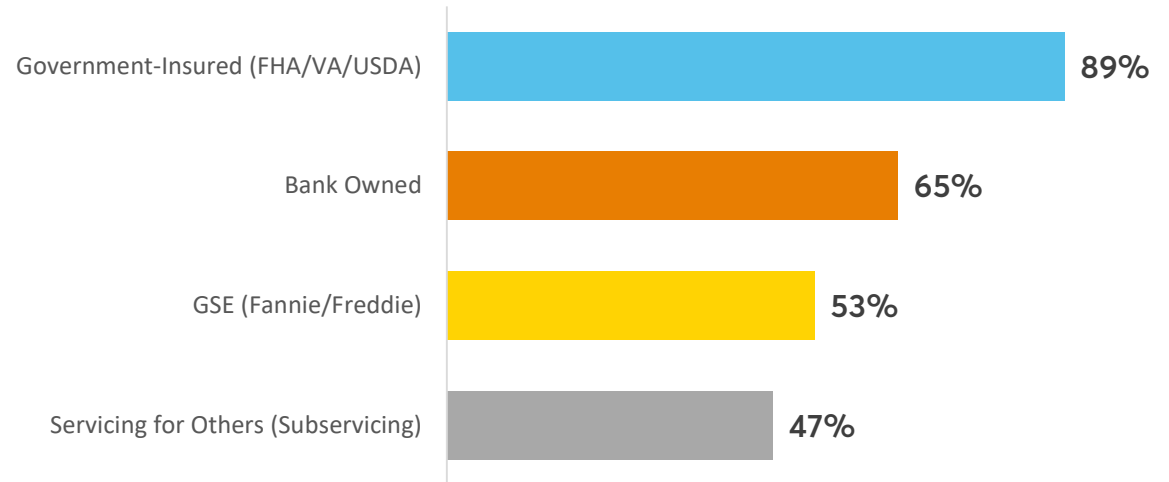
52 percent expect increase in GSE inflow

Nearly nine in 10 default servicers surveyed (89 percent) said they expect government-insured foreclosure and REO inflow to increase in 2020, the highest among four product types provided as options in the survey.

Government-insured loans include those backed by the Federal Housing Administration (FHA), Veterans Administration (VA) and U.S. Department of Agriculture (USDA). By comparison, 65 percent of respondents expect an increase in bank-owned foreclosure and REO inflow, 52 percent expect an increase from

loans owned by the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, and 47 percent expect an increase in subservicing inflow. Foreclosure auction inflow of government-insured loans into the Auction.com platform in Q4 2019 increased less than 1 percent from a year ago, but it was the sixth consecutive quarter with a year-over-year increase. Government-insured inflow was actually down 9 percent among large national servicers — mostly traditional big banks — but up 18 percent among nonbanks and special servicers.

Percent of Respondents Expecting Increased Foreclosure Inflow by Loan Product Type

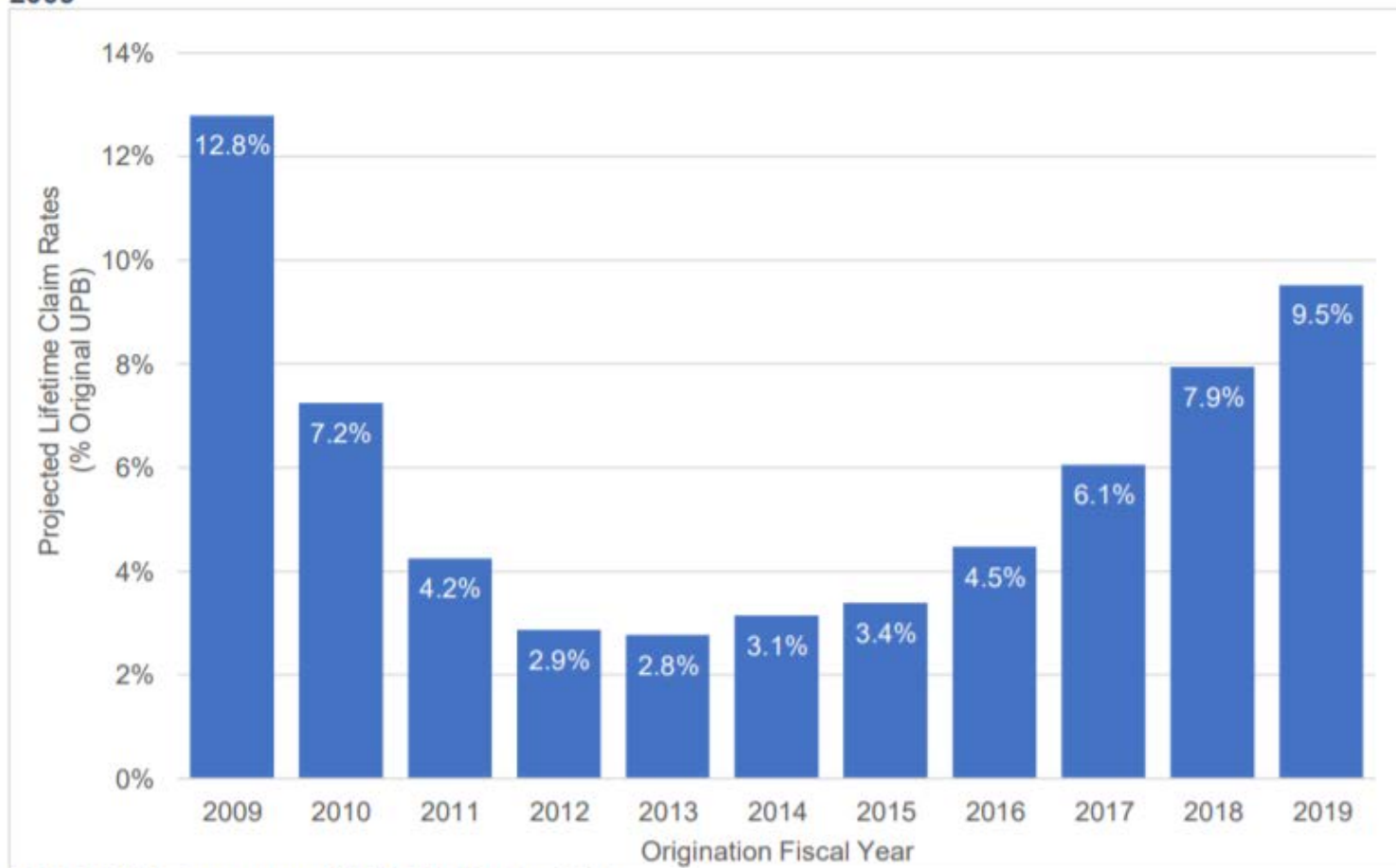


“Most in the default servicing industry expect government-insured loans to be the primary source of increased foreclosure inflow in 2020, even in the absence of a widespread recession or housing downturn. That’s a rational conclusion given the rising risk profile of FHA-backed loans originated in the last five years.” – Jesse Roth, SVP of Strategic Partnerships and Business Development with Auction.com

FHA Projected Claim Rate for 2019 at Highest Level Since 2009

FHA Continues to Monitor Emerging Risks

Exhibit O-9: Projected Lifetime Claim Rates for FY 2019 Originations at the Highest Levels Since 2009



SOURCE: U.S. Department of HUD/FHA, October 2019.
Refer to data table C-3 in Appendix C.

Inflow Increases Expected by Majority of Respondents in Five of Seven U.S. Regions

North Central and Central are only regions where majority of respondents do not expect an inflow increase

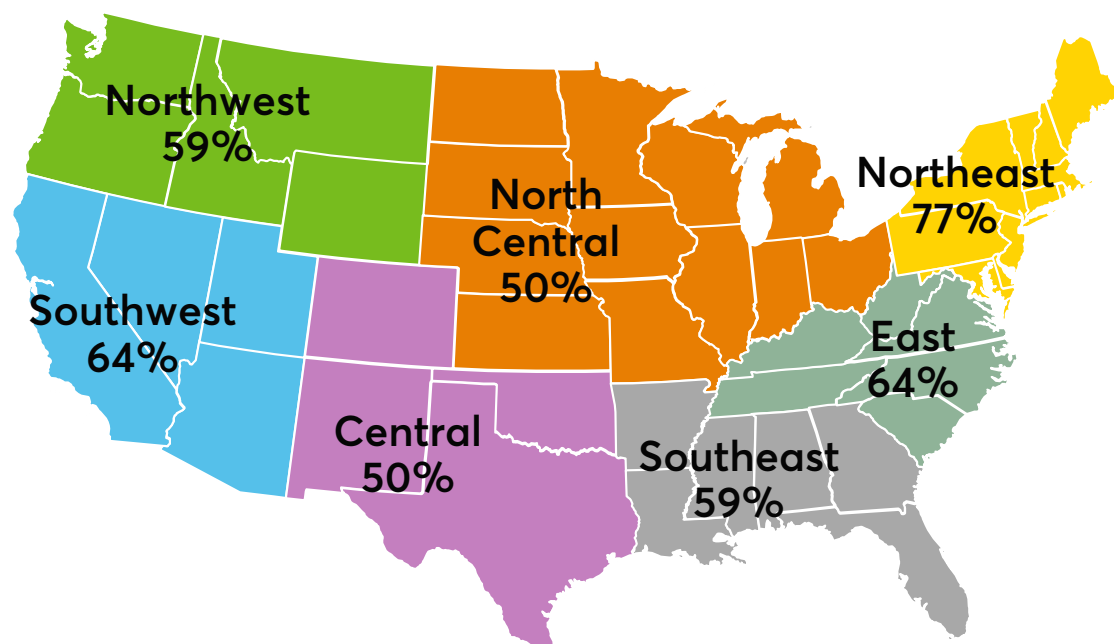
The majority of survey respondents said they expect foreclosure and REO inflow to increase in 2020 in five of seven U.S. regions provided as options in the survey.

The only two exceptions were the Central and North Central regions. Respondents were split evenly between increased inflow and decreased inflow in both these regions.

More than three in four respondents expect foreclosure and REO inflow to increase in the Northeast, the most of any region.

In contrast, 77 percent of respondents said they expect to see an increase in foreclosure and REO inflow in the Northeast, the highest percentage of respondents expecting an increase among all seven regions.

In what region(s) do you expect foreclosure and REO inflow to increase in 2020?



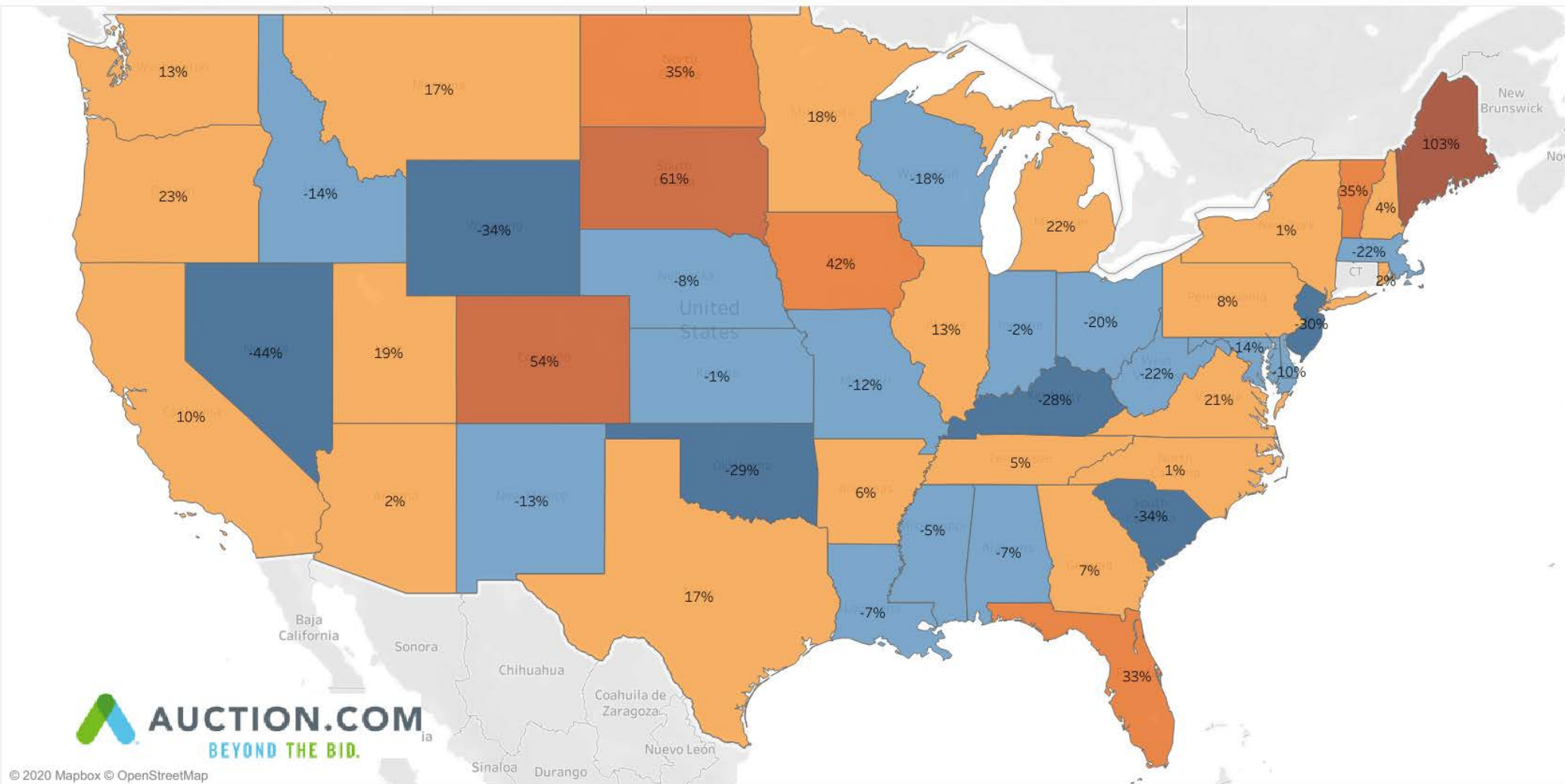
Q4 2019 Foreclosure Auction Inflow Increased in 26 States

Foreclosure auction inflow into the Auction.com platform in Q4 2019 increased from a year ago in the District of Columbia and 26 states, including Texas (up 17 percent), Florida (up 33 percent), Georgia (up 7 percent), Illinois (up 13 percent), and California (up 10 percent).

Auction.com Q4 2019 foreclosure auction inflow decreased from a year ago in 24 states, including New Jersey (down 30 percent), Ohio (down 20 percent), Alabama (down 7 percent), Missouri (down 12 percent), and Maryland (down 12 percent).

Q4 2019 Auction.com Foreclosure Auction Inflow Trends

YoY Change in Auction.com Q4 2019 Foreclosure Auction Inflow



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41 Percent Plan to Price More Aggressively to Sell to Third Parties at Foreclosure Auction

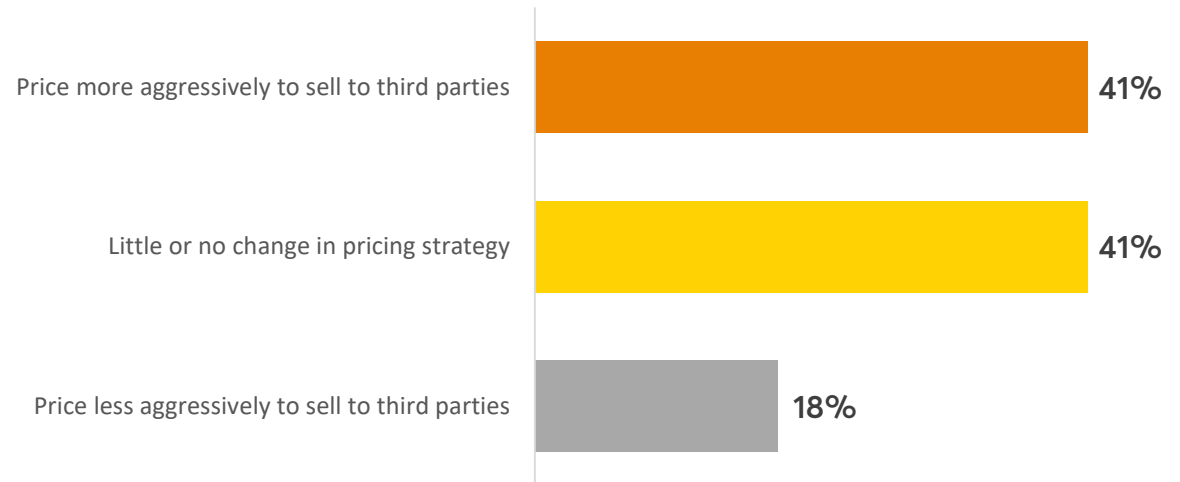
Two-thirds of nonbank servicers plan to price more aggressively

REO holding costs a primary or important factor for 8 in 10 servicers

Forty-one percent of survey respondents said they plan to price assets brought to foreclosure auction more aggressively to sell to third-party buyers as the result of market conditions in 2020. Another 41 percent said they plan little or no change to foreclosure auction pricing, and 18 percent said they plan to price less aggressively to sell to third parties.

Nonbank servicer responses ran counter to the larger trend; however, with two-thirds of that subset planning to price assets more aggressively to sell to third parties in 2020.

How do you expect market conditions to impact how you price assets brought to foreclosure auctions in 2020?



REO Holding Costs Impact on Pricing

More than 8 in 10 default servicers consider REO holding costs a primary or important factor impacting their foreclosure auction pricing strategy for 2020.

Fifty-nine percent said REO holding costs are an important factor in pricing assets that will be brought to foreclosure auction in 2020, with an additional 24 percent saying REO holding costs are the primary factor they consider when pricing at foreclosure auction.



“Auction.com clients who sell to third-party buyers at foreclosure auction avoid the significant costs and risks that come with holding a property as REO, and they realize higher price execution relative to other disposition methods thanks to the broad pool of informed and technology-empowered buyers we attract to our auction events.” -- Ali Haralson, Chief Business Development Officer, Auction.com

Net Proceeds 31 Points Higher for Foreclosure Sales than Traditional REO Sales

Based on analysis of more than 23,000 properties brought to foreclosure auction

Properties that sell to third-party buyers at the foreclosure sale deliver the highest execution relative to the seller's credit bid at the foreclosure sale, according to an [Auction.com analysis](#) of more than 23,000 properties brought to foreclosure auction in Q2 2018.

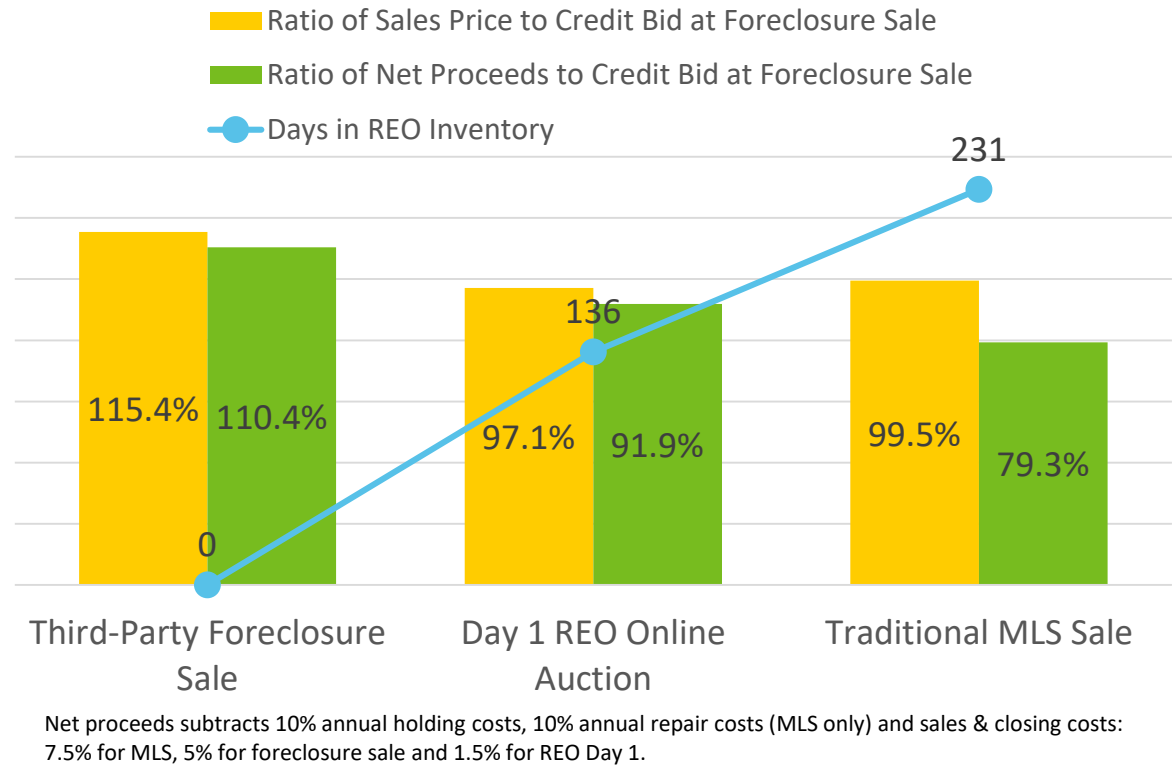
Of the 23,000 properties brought to auction, more than 9,000 sold to third-party buyers at the foreclosure sale while the remaining nearly 14,000 properties reverted to the foreclosing lender at the auction – also known as REO.

Auction.com tracked what happened to the

REO properties up to a year after the foreclosure auction, using public record sales data along with its own proprietary online REO sales data to determine the eventual resale price relative to the original credit bid at the foreclosure auction. The analysis then factored in holding, repair and sales costs to calculate the net

proceeds for each disposition method. With holding, repair and sales costs factored in, net proceeds from MLS REO sales executed at 79.3 percent of the foreclosure sale credit bid versus 91.9 percent for the online "Day 1" REO sales and 110.4 percent for third-party foreclosure sales.

Disposition Execution to Seller Credit Bid



Market Research & Analysis



Survey results were analyzed and summarized for this report by the Auction.com Market Research & Analysis team. Led by VP of Market Economics Daren Blomquist, this team leverages proprietary Auction.com data along with public record data to provide [data-driven insights](#) on distressed housing trends to the marketplace.

For more Market Research & Analysis, visit us at www.Auction.com/InTheNews

Or follow Auction.com on LinkedIn

Survey Methodology

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About Auction.com

Auction.com is the nation's largest online real estate transaction marketplace focused exclusively on the sale of bank-owned and foreclosure properties. The company brings a breadth of quality assets to the market, attracting prospective buyers through world-class marketing and leveraging a scalable technology platform to conduct transactions in a transparent, efficient manner.

Auction.com is a Thomas H. Lee Partners company and is headquartered in Irvine, California, with offices in Silicon Valley, California, and Plano, Texas. Investors include CapitalG (formerly Google Capital) and Stone Point Capital.