

Prospectus

Giants of the Mortgage Industry, 2010 A Double-Dip Housing Recession

- Sales & Prices Back Down; When Does It End?
- New Forecasts For 2010 Lending & Credit
- Radical Ideas For Radical Times
- The Full 2009 Score Card by Company:
 - Top 75 Originators; Top 100 Servicers
 - ARM, FRM, Refi, & Purchase Breakouts
 - Lending By Channel
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 - First-Time Sector Analysis
 - Early & Late-Stage Delinquency By Quarter

Optional Volume 2: Best & Worst FHA Loan Markets

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SUMMARY OF THE STUDY

For more than six months in 2009, a housing and mortgage recovery was firmly underway. Home sales were rising fast, prices were firming, loan originations were strong, and early-stage mortgage delinquency declined.

Then, it all stopped. By the end of the year and in early 2010, we were mired in a new housing and mortgage downturn.

It was a big surprise. **No housing up-cycle has ever lasted for so short a time.** Seeing the recovery statistics through mid-year 2009, our last Giants study was bullish, for the first time since the crash began in 2007.

Six key charts in the first section of this year's study paint the grim picture graphically. You'll find an inverted "V" in each chart for 2009, with the lines heading sharply up, then sharply down.

People who talk about a potential double-dip housing recession are wrong. It's not potential; it's already here.

We have devoted much of this year's Giants study to describing what happened, why, and when the bad news will end. Recovery will still come, but later. Our forecasts for 2010 lending and credit are now revised.

The annual Giants study, in production since 1986, also shows detailed data for each major lender for the full prior year.

SMR's traditional "Top 25" loan originators list has grown to a Top 75. We also present data on 100 large servicers. We break out wholesale versus retail loan production for every major bank and thrift.

The **Profits** section this year computes loan loss rates for major players. And in the **Introduction** section, we analyze the massive implications for mortgage lenders of the newly proposed **financial services reform legislation.**

We've also introduced **Sector Analysis** for the first time this year, showing loan production and market share by industry sector: banks, mortgage bankers, thrifts, and credit unions.

A short but important special section is entitled **"Radical Ideas For Radical Times."** We offer four ideas – way outside the box – that are actions lenders could take to help resolve the current crisis.

One bright note in 2009: FHA loan volume rose by nearly 50%. An optional Volume 2 Supplement to this year's study analyzes **Best & Worst FHA Loan Markets**, with data and attractiveness scores for 381 metro areas.

This Prospectus has all the details. An Order Form is enclosed or available on our web site. Thanks.

HIGHLIGHTS

The Double-Dip: What Happened?

In a word, 2009 was bizarre. For more than six months, home sales rose rapidly, mortgage originations were up, refis surged, and home prices were firming. Then: a new crash.

Six charts in our Introduction show seven time-series measures of what happened. **But why?** General economic statistics were pointing up all year. Mortgage interest rates stayed super-low. The stock market improved.

We look at the likely causes of the new housing recession. Government actions, we think, are partly to blame, driving down consumer confidence.

We remain convinced that improvement is coming. We show a new dip in early-stage mortgage delinquency in Q4, possibly a first sign of a new recovery trend in the most important area: credit losses.

But our hoped-for scenario published in 2009, where the credit crisis would begin to ease by the end of Q2 2010, was overly optimistic. Lenders will need to slog through this mess for a longer time.

The Credit Quality section in this year's study shows startling 90-day-plus mortgage delinquency rates for many of the largest lenders.

New Features In This Study

SMR's Giants Of The Mortgage Industry study has been published annually since 1986. **This year, we introduce a host of new features.**

- We rely on new data sources to provide originations data on the **Top 75** mortgage producers (used to be the Top 25), plus **100** large loan servicers.
- **We have introduced Sector Analysis**, not done since HUD stopped doing it years ago. We break out loan production by sector: Bank holding companies, other banks, independent mortgage bankers, thrifts, and credit unions.
- We have introduced **quarterly data** on loan production, looking at both 2008 and 2009.
- **In FHA lending**, which grew nearly 50% in 2009, we now rank a Top 50 group, as well as analyzing all the details of this market.
- We have begun publication of mortgage **chargeoff, recovery, and net chargeoff rates** for all major depository institutions by name.

HIGHLIGHTS (continued)

Radical Times, Radical Ideas

When you combine all their home loans (first-lien + home equity), two banks alone had nearly \$20 billion in chargeoffs in 2009.

For sheer survival, it's time for lenders to apply outside-the-box thinking and creative solutions. **We must destroy the perception that lenders themselves can do nothing about under-water borrowers, collateral values, and even unemployment.**

We offer four new ideas of our own – radical thoughts for radical times – at the end of this year's study.

One may strike you as mighty strange, but we intend all four to be taken seriously: 1) Lender coalition advertising, 2) New, super-collateralized mortgages, 3) Employer-sponsored mortgage benefits (with payback), and 4) Exploration of when hiring is cheaper than foreclosure.

The Restoring American Financial Stability Act

Regulation of the mortgage industry would change tremendously under the new bill introduced in March by Sen. Dodd. We expect revisions, but also passage of most key provisions.

We provide an 8-page summary of key provisions that will impact mortgage lenders, plus SMR commentary on good and bad features.

People had better pay close attention to the details in this 1,336-page bill. As written, one provision would, in effect, publicly reveal the incomes and other personal information of all borrowers by name!

Volume 2: Best & Worst FHA Loan Markets

It's no news that one bright spot has continued to shine in loan production: the expanded FHA business. Raw data on this subject are widely available.

But raw data don't tell you what's going on market-by-market. How do you measure FHA loan popularity? Where were growth rates strongest in 2009 over 2008? What's the average loan size in each market?

The Volume 2 supplement – more than 400 pages plus an Excel spreadsheet version – is optional. Order it only if you need to know. We show the key data, plus an Overall Attractiveness Score – for each of 381 metro area FHA markets. See Page 8 for more on this.

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Best & Worst FHA Loan Markets

As an optional supplement to the Giants study, we are offering a 411-page report called **Best & Worst FHA Loan Markets: 2009 & 2008 Data & Analysis For 381 Metro Areas**.

Clients get the report in print, plus an Excel spreadsheet version so that all metro areas can easily be re-ranked on characteristics you deem most important.

For each of the 381 metro areas, we include:

- 1. Numbers and dollars of FHA loans produced in 2009 versus 2008, with an annual growth rate compared to national average growth.**
- 2. The percentage of loans that were purchase mortgages versus refinances.**
- 3. Average loan sizes for purchase loans, refis, and all loans, compared to national average loan sizes in 2009.**
- 4. Popularity of FHA loans computed the right way: The percentage of all home owners who got one in 2009, against a national average lending rate.**
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- 6. We have identified the Top 5 FHA lenders in each market, their loan volume, and the market share of the Top 5 in 2009 production.**

Use this item for benchmarking, or to see where the market remains fragmented enough to allow for more growth. We include retail originations plus loans sourced from brokers for each of the Top 5.

7. Overall Attractiveness Score. SMR has created a scoring system, yielding a single number that ranks each market by its overall FHA lending characteristics.

The study explains the method in detail. **The highest score (for good reasons) goes to the Bethesda-Gaithersburg-Frederick, MD, metro area.**

With the companion spreadsheet, you can download these data to your own analytic system, re-rank markets on the characteristics you deem most important, or create you own scoring system.

Clients who purchase the Giants study can get the FHA study at 50% off its regular retail price. See the Order Form for details.