SMR Research Corporation

Stuart A. Feldstein, President

300 Valentine Street • Hackettstown, NJ 07840 • Phone 908-852-7677 • Fax 908-852-6884 • **Visit www.smrresearch.com**

Home Equity Lender Market Shares

Major Changes To The Product, May 2007

SMR has further enhanced its **Home Equity Lender Market Shares** reports, beginning with coverage of data through March 31, 2007.

The main addition is trend analysis. We now show each major lender's share of loans originated in each county over the last 12 months, but also how that share changed from the prior 12-month period.

We show this trend based on numbers of loans produced – and also based on dollars of loans produced.

The reports also continue, as before, to show each lender's current share of outstanding home equity loans.

Regarding break-out data, we previously showed each lender's percentage of dollars of loans produced as piggyback home equity products versus free-standing home equity loans. **We've now added the same breakouts for numbers of loans produced.**

We now show a single number for average loan size of newly originated loans for each lender in each county and state. The calculation is simple: Total dollars of loans produced divided by total numbers of loans produced.

At the same time, we have removed extraneous material from the spreadsheets, so that they are easier to read and use.

Arcane code numbers for lenders and geographical locations have been removed. Metro area locations of counties have been pushed to the right of the spreadsheets so that lender rankings and market shares are quicker and easier to see.

Finally, we now display data on the Top 25 loan producers in each county and state. Prior versions of this report showed data on the Top 50 in each locale, but the share figures for the 25 smallest in each place typically were small fractions of 1%. We have determined that it makes sense to show the Top 25, but any number beyond that had needlessly cluttered up the spreadsheets.

Coverage

In the first issue of this report series, we were able to show top home equity lenders in 423 U.S. counties. **This count now has expanded to more than 820 counties and 36 million U.S. owner-occupied home owners with mortgage debt.**

Coverage now spans about 65% of all U.S. owner-occupied homes with mortgage debt. And because our coverage focuses on the more urbanized counties where home equity loans are most popular, we believe we cover move than 70% of all home equity loans produced.

A complete list of all geographies covered appears at the end of this section.
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Methodologies

Source of Data

Beginning in 2004, SMR made a licensing agreement with the nation's largest vendor of raw data drawn from county tax assessor and county recorder offices around the U.S.

We received data on current properties and a history of loans by property. These data have been updated on a monthly basis.

The data include identities of lenders, as they appear on lien filings, for a large majority of loans produced.

At any moment in time, SMR is able to review owner-occupied homes and the current first-lien or junior-lien lenders with a near-100% sampling of properties in most counties covered.

Recency

Not all county recorders are equally up-to-date in their work. In some instances, recordings are lagging by three months or more at the time we receive new loan data.

When the loan data for a particular county are lagging substantially, we do not use the county for market share analysis. Our coverage spans counties with substantially up-to-date information.

Quarter-End Periods Are Approximate

SMR uses one of its monthly updated home owner databases for each quarterly market share report. The database used is the one in which most of the counties came closest to completing their lien recordings at the end-of-quarter period. However, these completion dates are not precise.

As a result, clients should view the quarter-end periods as approximations. A market share report for June 30, 2006, would represent data close to that date, but in various counties might actually be a week or two earlier or later than that precise date.

Counties Omitted From Analysis

Many rural counties do not appear in our database. We often get data on these counties regarding home ownership from tax assessor records, but no data on recorded liens from the county recorder files.

Nearly all larger and more populous counties are included in our database with up-to-date loan data. However, there are a few highly populated urban counties missing. These places are missing either because lien filings are not being posted to public records on a timely basis, or because of some other glitch related to public data availability or cost.

Recently, the missing larger counties included both counties comprising Long Island, NY, and the central counties of Minneapolis-St. Paul, MN, and Pittsburgh, PA.

Due to these omissions, clients must be aware that lender market share totals for New York, Minnesota, and Pennsylvania may not be perfectly accurate representations, although data are accurate for the counties that we do cover in those states.

All state and USA totals in our reports are totals only for the counties that we do cover.

Identification of Owner-Occupied Homes

The raw tax assessor data usually show which residential homes are owner-occupied versus non-owner-occupied. In some cases, they do not, and SMR makes the determination by comparing site versus owner mailing addresses.

The method we use defaults to owner-occupied in cases where the status is unclear. This likely causes our databases of owner-occupied homes to contain a small number of non-owner-occupied homes.

Home Owner Samplings Near 100%

Despite the limitations described above, SMR's county-level data appear complete in most places used for market share analysis.

We have compared our counts of owner-occupied homes with debt against those compiled in the year 2000 Census. In most cases, our totals are slightly higher, reflecting the increase in home ownership since the 2000 Census was conducted.

There is one exception to completeness of our coverage on home equity lending in counties we use. **The exception is Connecticut.** There, our data vendor has not been capturing all home equity loans produced, yet is capturing enough of them, we believe, to create valid samplings for market share analysis. We are working with the vendor on this problem.

The county coverage list at the end of this section shows our counts of owner-occupied homes with mortgage debt. You may compare these figures against Census or other data sources if you wish.

County Selection Criteria

Each quarter, we apply certain tests to the county-level data before making a decision to use the county in market share analysis.

If we observe that the number of loans originated over a trailing 12-month period appears to be very small compared to the number of debtors outstanding, we assume that recent loan origination data postings by the county recorder offices have been tardy or incomplete, and we do not use the county.

We also exclude counties with tiny home owner populations.

Our current report format also requires two years worth of valid originations data, so that we can do market share trend analysis. In a small number of counties, lien data collection began fairly recently. If the number of loans produced in the most recent 12 months grossly exceeds those we can see in a prior 12-month period, we do not use the county in our reports.

Market Shares Calculated On Known Lender Totals

In a small minority of instances, we can observe that someone has obtained a home equity loan, but the lender name is not provided. In some cases, we also observe loans produced by individuals such as seller-financing loans or parents who provide loans to their children.

We do not use these records in determining lender market shares, since the “blanks” would artificially cause each known lender’s share to be lower than it actually is.

Our market share calculation for any given lender in any county is: The lender’s numbers and dollars of loans produced divided by numbers and dollars of all loans produced by all bona-fide loan companies.

Market Shares By Parent Companies; Pro-Forma Basis For Old Loans

Our market share reports are designed to show data on parent companies, not on separate subsidiaries or other operations of each parent entity.

There are more than 80,000 lender names in the raw loan data that SMR receives. Some no longer exist, and many are subsidiaries of other parent firms. This causes substantial complications in our effort to produce market share reports based on parent company totals.

For example, there are still many home owners who have loans originally produced by Household Finance. But Household has since been acquired by HSBC. In acquisitions, we reset the parent name to that of the acquiring company. In this example, HSBC would be credited with all outstanding loans first originated by Household, as well as with loan originations produced by all current HSBC units.

Regarding subsidiaries, there are many whose names appear on the originated lien documents. For instance, Countrywide's Full Spectrum Lending unit often appears, and Ameriquest's Argent unit often appears. The subsidiaries are rolled up to parent company totals in our market share reports.

All acquisitions are handled on a pro-forma basis, assuming the current parent company has owned the acquired entity all along. Example: Bank X acquires Bank Y in December, 2006. In a market share report spanning 12 months ended March 31, 2007, we would include all of Bank Y's loan production and outstandings as being part of Bank X for the entire 12-month period, and also for the prior 12-months used for trend analysis.

This method allows clients to see whether the current parent company is gaining or losing share irrespective of any acquisition activity. To see the effects of an acquisition, simply refer to an earlier SMR market share report prior to an acquisition having taken place.

Keeping on top of who owns who in the lending business is not easy. SMR is better positioned to do this work than most other research firms because we have been covering the home equity and mortgage lending industries for more than 20 years.

Still, we must invest significant resources to continually maintain a "who owns who" database. It is highly likely that our parent company aggregations are imperfect, although the errors would most often occur with smallish lending companies.

How We Define And Select "Home Equity" Loans

We define a home equity loan or line of credit as a junior-lien loan. It must be subordinate to an existing senior lien.

In some instances, county lien documents disclose the lien position of a loan. If so, we use the lien document to make the home equity designation.

In other instances, we encounter a new loan obtained by a home owner and do not see the lien status in the county document. To determine whether such a loan is a senior-lien (refinance) versus a home equity loan, SMR begins by building a running loan history for each home owner starting with the home purchase date. We maintain an estimated total mortgage debt balance for each home owner.

Then, when we encounter a new loan with an "unknown" lien position, we compare the amount of the new loan to the home owner's existing debt. If the new loan is significantly smaller than the existing debt amount, we mark the loan as "home equity." If the new loan is near to, equal to, or greater than the existing debt amount, we mark it as a first-lien refinance. In cases where the home owner has an existing home equity loan and then gets another one, we assume the old home equity loan was refinanced into a new one.

Tests of our method against the Census Bureau's American Housing Survey (AHS) show that our method is generally valid. The percentage of all U.S. debtors with home equity loans in our databases is similar to the percentage shown in the AHS survey, which is updated biannually.

Very Old Loans Omitted

In some counties, SMR's historical loan files go far back in time. When we construct loan histories for people who have lived in the same home for a very long time, we will at times encounter loans originated far back in time.

When looking at share of loan outstandings, we do not count home equity loans that are more than 15 years old, since we assume these have since been paid off.

Home Equity Loan Types; Average Loan Sizes

The raw data we receive contain a flag for whether the loan has an adjustable versus fixed rate of interest. In home equity lending, the loans with the adjustable rate indicator would typically be home equity lines of credit, and those with fixed rates would be closed-end home equity loans.

Unfortunately, at present, many of the records we receive leave this flag blank, making it impossible to segregate all home equity loans into closed-end and open-end categories. If this problem is solved in the future, SMR will create separate closed-end and open-end home equity product share figures.

We show a single average loan size for loans produced over the last 12 months for each lender in each county and state. This is the average size of any home equity loans the lender produced, whether they were closed-end or open-end loan types.

Piggyback Versus Free-Standing Home Equity Loans

The point-of-sale loan type determination is actually one of the easier tasks in constructing our market share reports.

As most clients know well, a "piggyback" home equity loan is one originated simultaneously with a first-lien home purchase loan or refinance. Most are done on home purchases. Usually, people get these two-loan packages to avoid the need to pay for private mortgage insurance when a single new mortgage loan would exceed 80% loan-to-value.

In the data we receive, we get loan origination dates as well as unique property identification numbers. So, when we see that a home equity loan was produced or recorded on or about the same day as a first-lien mortgage on the same home, we mark it as a piggyback.

Free-standing home equity loans are all the rest – the loans made separate from any other mortgage. They remain the larger of the two groups, although piggybacks have increased powerfully since the late 1990s.

We show the piggyback/free-standing split for each lender in each county and state on originations. There are good reasons, including analysis of lender marketing strategies and appetites for risk (the piggybacks virtually all have high combined loan-to-value ratios, a traditional indicator of higher default risk).

Correspondent Loans

Mortgage and home equity lenders like to count, as part of their portfolios, loans that they purchase from other funding lenders (correspondent loans).

However, the lender name we see is the one on the lien document at the time it is filed. As a result, in most cases, we cannot tell which lender owns the loan right now; only who produced it on the date of origination.

This means that the market shares we show in a given county are each lender's share of owner-occupied homes with home equity loans based on which lender produced the loan. Loans sourced from mortgage brokers would typically be included correctly in our data, since the broker names do not usually appear on the origination lien documents.

When Our Numbers Don't Match Yours

Some SMR clients have their own internal methods for counting loan production and estimating share of market by county or state. If so, they may see differences between our market share numbers and their own internal data.

There are a number of reasons why this can happen. Here are some of the main reasons.

1. Definition of a "home equity loan."

In their internal statistics, many lenders include as a "home equity" loan any loan originated under their standard home equity loan pricing and underwriting guidelines.

Sometimes, these can include loans that occupy the senior lien position on a property, such as when a debt-free home owner asks a lender for a home equity line of credit. The lender may count the loan as "home equity," but we would see a loan occupying the senior lien position and would count it as a mortgage refinance.

As noted earlier, SMR must define a "home equity" loan as any loan occupying the junior lien position. If a loan occupies the senior lien position on a home, we count it as a first-lien mortgage loan.

2. Correspondent business.

You may purchase home equity loans from correspondent lenders and count them as your own "originations." But they are unlikely to be counted as yours in our data. We only see the lender name on the original lien filing, so we would likely count your correspondent-sourced loans as being produced by the correspondents, not by your firm.

3. Loans on non-owner-occupied properties.

SMR's market share product looks only at owner-occupied homes. Your own market share estimates by county or state probably include all loans produced on both owner-occupied and non-owner-occupied properties.

If your company makes a "normal" share of its loans on non-owner-occupied properties, this should not skew a comparison of your data to ours, since the owner-occupied portion of the business is so dominant. However, if your company specializes in or heavily promotes loans on vacation homes or rental properties, you may well have a larger share of total loans than our data would show.

4. Errors in parent company coding.

Although we work hard to prevent this, it is possible that we miscoded one of your subsidiaries or acquired firms and did not include loan production by that operation in your parent company totals.

If you suspect this might have happened, please make a list of all company names which might appear on liens filed by your company at county courthouses. Contact us, furnish the list, and we will check and re-run data for you if necessary.

5. Our state totals are the totals only for the counties we cover in a state.

If you are looking at your own state totals for home equity loan production, it's possible (and often likely) that they won't match ours. That's because we can only run totals for the counties within that state for which we have valid data. In some states, like California and Florida, we have near-complete coverage. In others, we do not.

Our state-level market shares are based only counties we cover in a state.

6. Timing of public release of county recorder records reduces our counts.

We only compute market shares in counties where we believe we have a valid sampling of all loans originated in the last 12 months. However, the sampling of newly produced loans would never be 100% complete unless you waited a long time after the close of a calendar quarter.

Here's how it works, using an example. At the end of April, we get a Los Angeles County file showing new liens publicly posted by the county recorder. Most of these would be liens filed in March or early April. But some might also be liens filed in February, or even in January, which the county recorder never got around to posting to the public records file until now. So, at the end of April, if you looked back over 12 months at all loans produced in LA, you would be missing some, because you won't see them until you get another file in May and another in June.

Depending on the county, this timing problem means that when we publish a quarterly market share report (about six weeks after the close of a calendar quarter), we may be missing anywhere from 5% to 15% of the loans actually produced in the prior 12 months. But the remainder is more than a sufficient sampling for market share calculations.

If you have additional questions about our methodologies, please feel free to call us at 908-852-7677.

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