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, foreclosure and prepayment trends. From there, we break down the June rise in delinquency rates while also taking a look at Q2 2019 default and foreclosure metrics.

After five consecutive months of increased prepayment activity, the metric reversed course in June. We therefore take an in-depth look at the decline in prepayment activity, while also providing an update on the number of refinance candidates in the market. Finally, in light of recent interest rate drops, we revisit the issue of home affordability. We also examine home price growth trends across the country after 15 consecutive months of declining annual home price appreciation.

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.
Here we have an overview of findings from Black Knight’s ‘First Look’ at June 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.

**JUNE OVERVIEW STATS**

**CHANGE IN DELINQUENCY RATE**
- **10.8%**
  - Seasonal rises and calendar impacts drove delinquencies up from May’s all-time low.
  - June ended on a Sunday, a factor which historically – and usually temporarily – increases mortgage delinquencies.

**FORECLOSURE STARTS**
- **2.8%**
  - Both foreclosure starts and the number of loans in active foreclosure rose modestly in June.
  - Still, starts were down nearly 8% from this time last year.

**PREPAYMENT RATE**
- **-7.5%**
  - Despite increased refinance incentive from lower interest rates, prepayment activity fell 7.5% from May.
  - May’s dip marked the first decline in prepayments in five months.

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After setting multiple consecutive record lows, the calendar conspired against the national delinquency rate as seasonal rises, combined with June ending on a Sunday, delivered a nearly 11% spike in delinquencies.
Here, we break down the June rise in delinquency rates while also taking a look at Q2 2019 default and foreclosure metrics. 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.

**JUNE 2019 MORTGAGE PERFORMANCE UPDATE**

» June’s nearly 11% jump in delinquencies was one of the top five such single-month increases in the past decade and one of the top 15 on record back to 2000

» However, while significant, it wasn’t unexpected given the seasonal and calendar-related pressures weighing on the market

» On average, over the past 20 years, the national delinquency rate has increased by 2.5% in June

» More impactful is that the month ended on a Sunday, which means servicing operations are closed on the last two calendar days of the month and cannot process last-minute payments

» Sunday month-ends have contributed to nine of the 10 largest single-month delinquency rises over the last seven years

» June has ended on a Sunday three times in the past 20 years; the last two (2002 and 2013) saw an average monthly delinquency rate increase of 11.1%, nearly identical to this year

» Delinquencies tend to improve in the month following a Sunday month-end, which may help to counter the seasonal rise typically seen in July
» An estimated 243K borrowers defaulted on first lien mortgages in Q2 2019

» The national default rate fell by 2% Q/Q in Q2, well below the 9% average decline seen from Q1 to Q2 in recent years

» While the quarter ending on a Sunday certainly played a factor in the rise in defaults, a noticeable overall slowdown in the decline in default activity has been observed

» In fact, the national default rate rose by 3% compared to Q2 2018, the first such annual rise since the financial crisis (adjusting for the 2017 hurricane season)

» Defaults increased across all investor classes to varying degrees; legacy PLS loans experienced the largest increase at +13%, with portfolio-held loans the lowest at +1%

» GSE mortgages, despite still having default rates roughly one half the market average, were up by 3%, while FHA/VA loans (with default rates ~2X the market average) saw a 5% increase

» Overall 90-day delinquencies continue to decline because of strong cure rate volumes
From a geographical perspective, defaults were up across the majority of the country as well.

- The largest increases were seen in areas impacted by flooding in early 2018 (which also contributed to the overall Q2 rise), namely along the Missouri and Mississippi rivers.
- Nebraska experienced the largest increase at +26% year-over-year, followed by South Dakota at +18% and Montana at +15%, but the impact extended beyond flood-stricken areas.
- All in, 39 different states saw default rates rise, but a few noteworthy exceptions stand out.
- Florida’s default rate fell by 11% year-over-year (likely due in part to continued recovery from hurricane Irma); California also saw a decrease of 2%.
- While rises varied across the country, a clear distinction in default rates continues on a geographic basis, with the highest being seen in the southern U.S. and the lowest in the north and west.
Despite the Q2 year-over-year rise in defaults, overall seriously delinquent inventory (loans 90 or more days past due) is down by 17% from last year due to continued strong cure activity.

At roughly a year past due, the average age of serious delinquencies continues to decline as we move further away from the financial crisis, down from more than 500 days at its peak in 2015.

The strong economy, improved equity positions and continued focus on loss mitigation have all contributed to continued improvement in serious delinquency rates.

Normalization of the overall 90+ day delinquent inventory has led to an increased number of “soft cures” – i.e., borrowers self-curing from seriously delinquent to lower stages (30/60 days) of delinquency.

While more borrowers are paying in full out of serious delinquency in recent years, it has not been to the extent of such activity as in 2005.

This suggests that a limited number of borrowers who are falling seriously behind are having to sell their homes to avoid defaulting on their mortgage.

On average, 16% of seriously delinquent loans paid off, paid current or paid down their delinquency each month in Q2 2019.
First-time foreclosure starts accounted for just 37% of all activity, marking the lowest such volume and share of foreclosure activity of any quarter on record.

- A total of 120K foreclosure starts were initiated in Q2 2019, down 7% from Q1 and down 12% year-over-year, marking the lowest quarterly total since the turn of the century.
- First-time foreclosure starts were down 20% year-over-year, while repeat foreclosures saw only a 7% decline.
- Mississippi had the highest foreclosure start rate of any state, with one in every 180 active mortgages being referred to foreclosure in Q2, followed by Louisiana at 1 in 219.
- On the other end of the spectrum, Colorado set the lowest mark of any state at one in 1,199 followed by Washington at one in 1,000 and California at one in 939.
- While foreclosure starts continue to see strong year-over-year improvement, Q2’s 12% decline in foreclosure starts is slightly below the three-year average of -15%. 
There were an estimated 37,900 foreclosure completions in Q2, down 2% from 38,700 in Q1, and down 18% from the same time last year.

- Foreclosure sales as a share of starting foreclosure inventory held steady at the 12-month average of 14%, but continue to be well below their pre-crisis average.
- All in all, one in every 1,378 homes with a mortgage was lost to foreclosure sale in Q2, the lowest rate on record.
- While Florida saw the highest volume of foreclosure sales (3,600), Mississippi had the most as a share of active mortgages, with one in every 517 mortgaged properties being lost to foreclosure sale in Q2.
- Utah had the lowest foreclosure sale rate with one in every 10,567 mortgaged properties being lost to sale, followed closely by Colorado at one in 10,283.
- As with foreclosure starts, the rate of decline among foreclosure sales has begun to slow slightly; Q2’s 18% decline fell below the -23% three-year average.
- That said, clear improvement continues in both categories.
Here, we take an in-depth look at June’s decline in prepayment activity, while also providing an update on the number of refinance candidates in the market. 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.

» Prepayment activity fell by 7.5% in June, the first such monthly decline since January 2019
» This was particularly surprising given that refinance incentive continues to rise and home sale driven prepayments typically increase from May to June
» Declines were seen widely across servicing portfolios, investor classes, interest types and vintages

» The strongest pullbacks were among portfolio held loans (-12% M/M), high credit score (720+) mortgages (-9% M/M), ARMs (-11% M/M) and 2018 vintage loans (-13% M/M)
» All of these cohorts had been among those seeing the largest increases in prepayment activity in recent months
» The profile of these cohorts suggest the pullback may be due to sluggish refi-driven prepayments in June rather than (or potentially in combination with) lackluster home sale driven prepays

JUNE 2019 PREPAYMENT ACTIVITY
There are now 8.2M refinance candidates in the market, 66% more than in May when borrowers would have been applying for the loans driving June prepayment numbers.

The continued rise in refinance incentive suggests that there may be more prepayment and refinance activity on the horizon, despite June’s decline.

Early indications suggest that a drop in refinance activity was behind the June decline.

Rates didn’t fall below 4.25% until the final week of March; assuming a 30-45 day close window, this would have pressed May prepayment activity upward.

Rates then trended upward, peaking back at 4.2% on April 25th, which may have had a slight dampening effect on refinance applications.

A 30-45 day close window from April 25th brings those potential preps into late May to mid-June – contributing to lackluster June refinance volumes.

Rates have since fallen to 3.75% as of late July, near a two-and-a-half year low, resulting in the most refinance incentive in the market since late 2016.

This suggests the June slump in refi/prepay numbers may simply be a lull rather than an overall lack of borrower sensitivity to the current rate environment.
This chart shows the market’s clear sensitivity to even small interest rate movements.
Here we examine home price growth trends across the county as well as provide an update on the impacts to affordability from recent interest rate declines. This information has been compiled from Black Knight’s Home Price Index. You may click on each chart to see its contents in high-resolution.

**NATIONAL PAYMENT-TO-INCOME RATIO**

As 30-year mortgage interest rates fell to 3.75%, the share of the median monthly income needed to make principal and interest payments on the average home purchase fell to 21.3%, a decline from 23.3% in November 2018.

The fact that home prices began to react sharply to November’s payment-to-income ratio of 23.3% – a level more affordable than the late 1990s and early 2000s – suggests heightened sensitivity to affordability concerns in today’s market.

Despite the average home price rising by more than $12K from November, today’s lower fixed interest rates have equated to a $108 monthly payment cut on the average home purchased with 20% down.

The decline in 30-year rates has been equivalent to a 15% increase in buying power, meaning that prospective homebuyers shopping for the average-priced home could now pay $45,000 more for a home than last fall while keeping monthly payments the same.

Affordability is now the strongest it's been since February 2018, when home price growth started to slow across the country.
PAYMENT-TO-INCOME RATIO BY STATE – JULY 2019

- Whereas nine states were less affordable than their long-term norms back in November, only two remained so as of July.
- California remains one of the least affordable states to purchase a home and is one of the two states (Hawaii being the other, with a 35% payment-to-income ratio) that is less affordable than its own long term average.
- That said, affordability in the state has improved significantly in recent months; it now requires 34% of the median income to purchase the average California home, down from 38% in November.


- Rate declines have improved the affordability outlook across the country, but a familiar geographic division remains.
- Housing is least affordable along the western U.S. and parts of the northeast, while with the Midwest and parts of the south are home to some of the lowest payment-to-income ratios.
- Not only is housing in the Midwest the most affordable, but it is also the furthest below its own long-term average, as income growth there has been more in line with home price growth than in other areas.
Early home price numbers for June suggest that slowing home price growth has now leveled off, driven by falling interest rates and improving home affordability.

The national home price growth rate in June was 3.78%, staying level from May after declining in each of the previous 15 months.

Keep in mind that impacts from interest rate declines take time to manifest in housing market metrics, due to contract, offer, closing and recording timelines.

With 30-year rates not falling to 3.75% until the end of June, the impacts of more recent affordability improvements may not be seen in home sales and price changes until August’s or September’s housing numbers.
California went from having one of the top five home price growth rates of any state (+8.6%) one year ago to second-to-last as of June 2019, with home price growth slowing to just 1.6% year-over-year.

That said, as rates have declined, home deceleration has begun to level off in California as a whole and several of the West Coast's largest markets.

While prices in Los Angeles, San Francisco, San Diego, CA and Seattle, WA have all risen by 1.1% or less over the past 12 months, the rates at which they're slowing have begun to taper.

Even in San Jose, where home prices are down by more than 6% from June 2018, the rate of decline has begun to flatten.

These are all good signs, given these markets' sharp reaction to rising rates and tightening affordability in late 2018.
An interesting transition is taking place in terms of price growth between condominiums and single family residences (SFRs)

- The growth rate of condos had been slowing much more significantly than that of SFRs over the past 12 months.
- Prior to that, the growth rate of the two property types was nearly identical; now condo prices are appreciating at a more than 40% slower pace (2.2% vs. 3.9%).
- Condos appreciated faster than SFRs in the late 90s/early 2000s, then saw a much sharper downturn during the financial crisis before experiencing stronger growth rates in 2012–2014 – now the tide is turning again.
- Condominium price appreciation has historically been more volatile than that of single family residences.
- While this shift could be due to a number of factors, given historical trends, this is a market segment on which Black Knight will be keeping a close eye.
The Rocky Mountains region continues to lead the country in terms of home price growth with Idaho the strongest at 10.9% year-over-year and Utah third at +7.6% annual growth. Boise City, ID; Spokane, WA; Ogden, Salt Lake City and Provo UT; and Colorado Springs, CO all rank in the top 10.

Markets east of the Rockies are beginning to emerge, with Chattanooga, Memphis and Knoxville, TN plus Grand Rapids, MI in the top 10 as well.

49 of 50 states and 99 of the 100 largest markets saw home prices rise year-over-year.

Delaware was the only state-level exception, with prices there edging down ever so slightly (-0.1%), while San Jose was the lone market standout, with home prices falling by 6.5% from June 2018.

While the slowdown in home prices in the West has begun to level off, Seattle WA and San Diego, Los Angeles, Oxnard, San Francisco and San Jose CA all rank in the bottom 10 of the 100 largest markets in terms of home price growth.
Many western markets saw annual home price growth slow in June, while a much higher share of markets east of the Rockies saw annual appreciation rise.

This matches the trend of much tighter affordability in western markets (even factoring in recent rate declines) and a subsequent market reaction.
The geographic differences in post-recession recovery are clearly seen in the map above, where areas that have surpassed their pre-crisis peaks shown in blue and those that still lag in green.

Many parts of California, Nevada, New Mexico and Florida, along with the greater Chicago metro area and patches of the northeast, still remain below pre-recession levels.

Home prices in 25 of the 100 largest markets remain below peak levels, while prices in 75 markets have fully recovered from the financial crisis - in some areas, decidedly so.

Denver, for example, leads the nation with home prices there now 69% above their 2006 peak.

In San Jose – where prices have fallen by 6.5% year-over-year – the average home price is still 60% above pre-recession levels.
## JUNE 2019 DATA SUMMARY

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<th>Jun-19</th>
<th>Monthly Change</th>
<th>YTD Change</th>
<th>Yearly Change</th>
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<td>Foreclosure</td>
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<td>Foreclosure Starts</td>
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<td>New Originations (data as of May-19)</td>
<td>771K</td>
<td>31.7%</td>
<td>72.7%</td>
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<td>3.73%</td>
<td>3.36%</td>
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### TOTAL DELINQUENCIES

### NEW ORIGINATIONS
## Loan Counts and Average Days Delinquent

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<th>Month</th>
<th>TOTAL ACTIVE COUNT</th>
<th>30 DAYS</th>
<th>60 DAYS</th>
<th>90+ DAYS</th>
<th>FC</th>
<th>Total NC</th>
<th>FC Starts</th>
<th>Average Days Delinquent for 90+</th>
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<td>492,889</td>
<td>264,451</td>
<td>2,167,707</td>
<td>39,657</td>
<td>391</td>
<td>853</td>
<td>186.4%</td>
</tr>
<tr>
<td>4/30/19</td>
<td>52,228,211</td>
<td>1,003,514</td>
<td>335,160</td>
<td>473,565</td>
<td>259,290</td>
<td>2,071,529</td>
<td>41,356</td>
<td>393</td>
<td>880</td>
<td>182.6%</td>
</tr>
<tr>
<td>5/31/19</td>
<td>52,304,596</td>
<td>965,815</td>
<td>332,992</td>
<td>461,036</td>
<td>255,386</td>
<td>2,015,229</td>
<td>38,970</td>
<td>394</td>
<td>897</td>
<td>180.5%</td>
</tr>
<tr>
<td>6/30/19</td>
<td>52,288,778</td>
<td>1,145,626</td>
<td>349,170</td>
<td>454,890</td>
<td>259,274</td>
<td>2,208,960</td>
<td>40,126</td>
<td>364</td>
<td>920</td>
<td>175.4%</td>
</tr>
</tbody>
</table>
# State-by-State Rankings by Non-Current Loan Population

<table>
<thead>
<tr>
<th>State</th>
<th>Del %</th>
<th>FC %</th>
<th>NC %</th>
<th>Year/Year Change in NC %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National</strong></td>
<td>3.7%</td>
<td>0.5%</td>
<td>4.2%</td>
<td><strong>-2.0%</strong></td>
</tr>
<tr>
<td>MS</td>
<td>10.1%</td>
<td>0.7%</td>
<td>10.8%</td>
<td>10.7%</td>
</tr>
<tr>
<td>LA*</td>
<td>7.2%</td>
<td>0.9%</td>
<td>8.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>AL</td>
<td>6.8%</td>
<td>0.4%</td>
<td>7.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>WV</td>
<td>6.3%</td>
<td>0.6%</td>
<td>6.9%</td>
<td>3.6%</td>
</tr>
<tr>
<td>AR</td>
<td>5.7%</td>
<td>0.5%</td>
<td>6.2%</td>
<td>8.3%</td>
</tr>
<tr>
<td>IN*</td>
<td>5.4%</td>
<td>0.7%</td>
<td>6.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>OK*</td>
<td>5.1%</td>
<td>0.8%</td>
<td>5.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>ME*</td>
<td>4.1%</td>
<td>1.7%</td>
<td>5.8%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>PA*</td>
<td>4.9%</td>
<td>0.7%</td>
<td>5.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>RI</td>
<td>4.8%</td>
<td>0.8%</td>
<td>5.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td>DE*</td>
<td>4.7%</td>
<td>0.8%</td>
<td>5.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>GA</td>
<td>5.2%</td>
<td>0.3%</td>
<td>5.5%</td>
<td>2.1%</td>
</tr>
<tr>
<td>SC*</td>
<td>4.9%</td>
<td>0.6%</td>
<td>5.5%</td>
<td>5.8%</td>
</tr>
<tr>
<td>MO</td>
<td>4.8%</td>
<td>0.6%</td>
<td>5.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>NY*</td>
<td>3.8%</td>
<td>1.5%</td>
<td>5.4%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>CT*</td>
<td>4.3%</td>
<td>0.9%</td>
<td>5.3%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>TX</td>
<td>4.8%</td>
<td>0.4%</td>
<td>5.1%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

* Indicates Judicial State
Mortgage Monitor Disclosures and Definitions

You can reach us by email at Mortgage.Monitor@bkfs.com

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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.