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Foreclosure Loss Severity Negotiating Tool



Fitch: U.S. RMBS Loss Severities to Rise 5-10% on Rising Costs & Weakening Home Values
16 Dec 2010 9:30 AM (EST)

Fitch Ratings-New York-16 December 2010: **Loss severities on distressed U.S. residential mortgage loans are likely to increase an additional 5-10%** from current levels due to higher loss mitigation and foreclosure expenses and weakening home values, according to the latest RMBS Performance Metrics results from Fitch Ratings.

The anticipated increases for each sector's average loss severities are expected to be as follows:

Loan Type	2010	2011 (Projected)
Prime	44%	49-54%
Alt-A	59%	64-69%
Subprime	75%	80-85%

Prior to the recent negative trends, loss severities had remained stable for over a year. Beginning in second quarter- 2009 (2Q'09), recovery values had been supported by an improvement in home prices brought on by low mortgage rates, homebuyer tax credits and government directed loan-modification programs. From 2Q'09 though 2Q'10, home prices jumped approximately 6% nationally and almost 12% in California according to the Case-Shiller Index.

However, the positive momentum in home prices is not sustainable, according to Managing Director Grant Bailey. 'With the tax credits expired and a high inventory of distressed properties remaining to be sold, the housing market faces significant challenges in 2011,' said Bailey. 'The higher the glut of unsold properties on the market, the more adverse of an effect it will have on home prices.'

As such, Fitch is projecting a further 5-10% decline in home values nationally next year.

Recoveries on distressed loans will also be negatively affected by increased servicing costs. Due to loan modification efforts and servicer process issues, the average number of months between a troubled borrower's last payment and the property liquidation date has grown to 19 months, the highest level on record. Fitch projects that figure to increase by at least six months in 2011 even if the recent problems related to foreclosure affidavits are resolved quickly. The extended timelines generally result in higher interest-carry costs and property-maintenance expenses.

However, several factors could help stem rising loss severities, according to Managing Director Diane Pendley. 'Servicers are increasingly turning to less costly alternatives to foreclosure such as short-sales,' said Pendley.