AUCTION.COM
MARKET RESEARCH & ANALYSIS

2023
Seller Insights

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- Distressed Market Roll Rates
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Default Servicing Leaders Expect Slight Increase in Foreclosure Volume and Falling Home Prices to Close Out 2023

Irvine, Calif. — Aug. 24, 2023 — Auction.com, the nation's leading distressed real estate marketplace, today released its 2023 Seller Insights report, which shows that 92 percent of default servicing industry leaders expect completed foreclosure volume to increase in 2023 compared to 2022 while 85 percent expect home prices to decline in 2023 compared to 2022.

The report is based on a June 2023 survey of more than 50 leaders in the default mortgage servicing industry at the Auction.com Disposition Summit in Dallas. Survey respondents included default servicing leaders from mortgage asset investors, bank servicers, nonbank servicers, government agencies and government-sponsored enterprises.

Economic conditions will have the biggest impact on foreclosure volumes for the remainder of 2023, according to survey respondents. Respondents also expect roll rates from delinquency to foreclosure to continue to rebound back closer to pre-pandemic levels for the remainder of 2023. Those roll rates dropped to historically low levels during the pandemic with its emergency foreclosure prevention efforts.

Other survey findings in the report:

- 77 percent of respondents expect a "slight" increase in foreclosure volume while 15 percent expect a "substantial" increase
- 77 percent of respondents expect home prices to decline by single-digit percentages in 2023 while 9 percent expect a double-digit decline
- Survey respondents estimated an average loan-to-value ratio of 82.3 percent for seriously delinquent loans in their portfolio
- Respondents ranked loss mitigation delays as their top disposition challenge

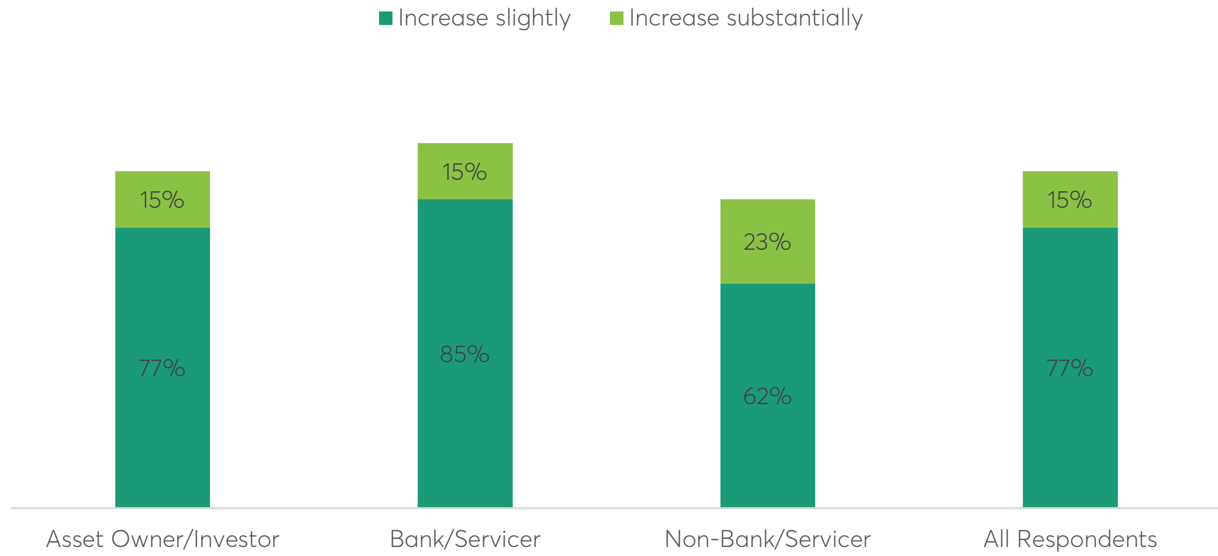
"The default servicing industry is on the frontlines of efforts to prevent foreclosure and keep more people in their homes. Those efforts successfully prevented a myriad foreclosures during the pandemic and are continuing in earnest, which helps to explain why most in the default servicing industry are expecting foreclosure volume to increase only slightly to close out 2023."

- Jason Allnutt, CEO, Auction.com

92% in Default Servicing Space Expect Increasing Foreclosure Volume for 2023

- 100% of survey respondents from bank servicers expect an increase while 85% of respondents from nonbank servicers expect an increase

What do you expect for your organization's completed foreclosure volume in 2023 v 2022?



More than nine in 10 Auction.com seller clients surveyed (92 percent) said they expect their organization's completed foreclosure volume to increase in 2023 compared to 2022.

Most of the 92 percent said they expect a slight increase (77 percent). The remaining 15 percent said they expect a substantial increase.

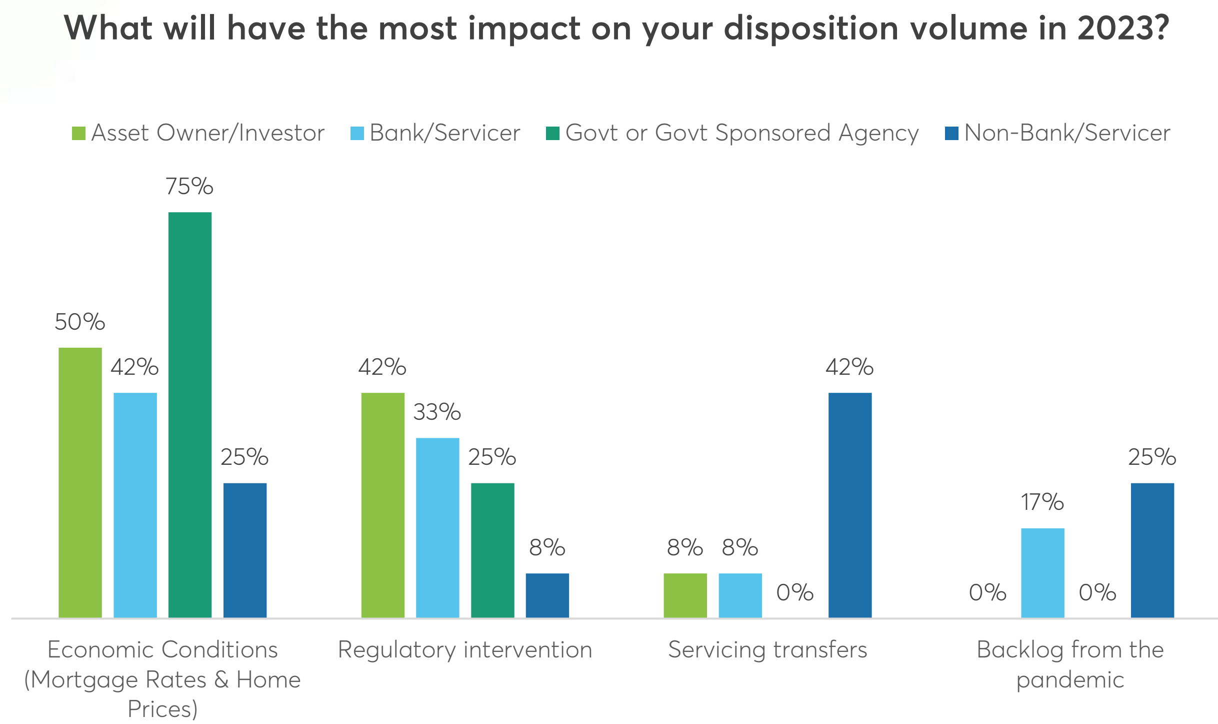
Among the 8 percent who said they expect their organization's foreclosure volume to decrease in 2023, 6 percent said they expect a slight decrease and 2 percent said they expect a substantial decrease.

A similar percentage of Auction.com clients surveyed in 2022 (90 percent) expected an increase in foreclosure volume last year, with 74 percent expecting a slight increase. Actual foreclosure volume (completed foreclosure auctions) in 2022 increased 23 percent from 2021, according to data from ATTOM Data Solutions.

Survey respondents from bank servicers were most likely to expect an increase in foreclosure volume in 2023 (100 percent) while survey respondents from non-bank servicers were least likely to expect increasing foreclosure volume (85 percent).

Economic Conditions Will Have Most Impact on Foreclosure Volumes for Remainder of 2023

- Followed by regulatory intervention, servicing transfers and backlog from the pandemic
- Economic conditions ranked as having the most impact by bank servicers, investors and government agencies
- Servicing transfers ranked as having most impact by non-bank servicers



Nearly half (46 percent) of all respondents ranked economic conditions such as mortgage rates and home prices as the top factor that will impact disposition volume for the remainder of 2023.

That was the highest percentage of any factor, followed by regulatory intervention (33 percent), servicing transfers (17 percent) and backlog from the pandemic (11 percent).

These survey results marked a significant shift from last year, when Auction.com clients ranked backlog from the pandemic as the top factor impacting foreclosure volumes in 2022.

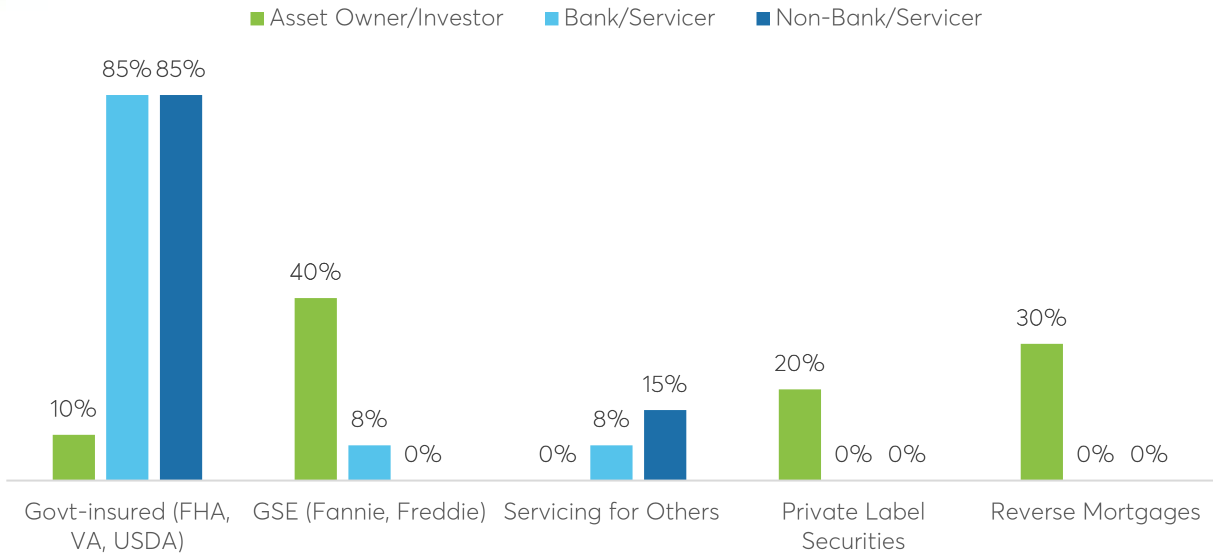
Bank servicers, investors and government agencies all ranked economic conditions as the top factor impacting foreclosure volumes for the remainder of 2023, but nonbank servicers ranked servicing transfers as the top factor.

Government agencies put the most weight on economic conditions as a factor impacting foreclosure volumes, with 75 percent ranking that as the top impact.

Government-Insured Loans Ranked First for Potential Loss Risk

- Followed by GSE-backed loans and servicing for others
- Investors ranked GSE loans as having most potential loss risk followed by reverse mortgages

Where are you facing the most risk of loss in your portfolio?



More than half of all survey respondents (59 percent) said they were facing the most risk of loss in their mortgage portfolios on government-insured loans – including those insured by the Federal Housing Administration (FHA), Veterans Administration (VA) and U.S. Department of Agriculture (USDA).

Eighty-five percent of both bank servicers and non-bank servicers said government-insured loans represented the most risk of loss in their mortgage portfolios.

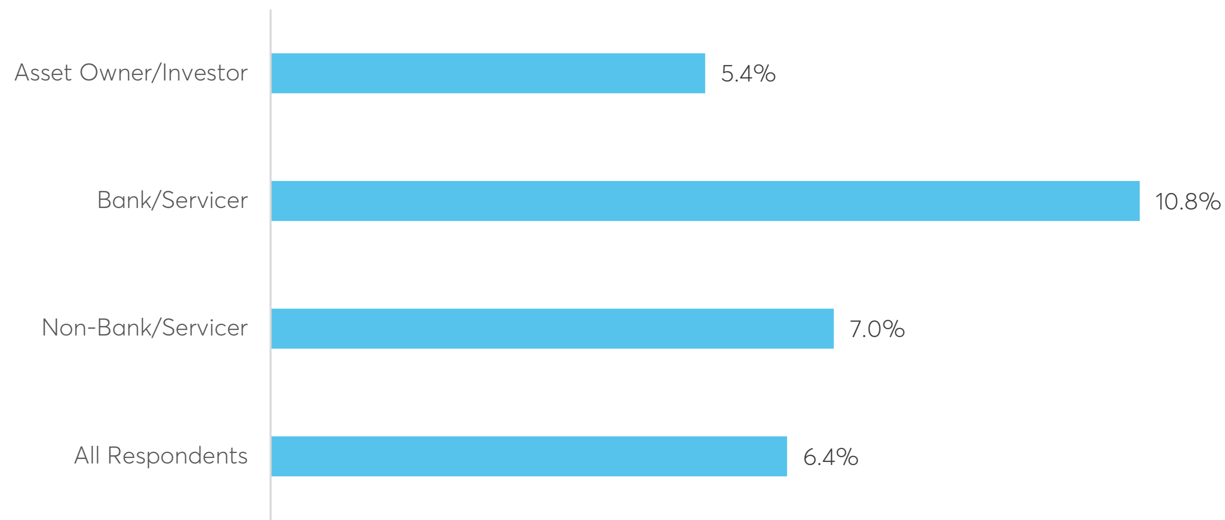
Mortgage investors said they faced the most risk of loss on loans backed by the government-sponsored entities of Fannie Mae and Freddie Mac. Investors ranked reverse mortgages second in terms of most potential loss risk.

Click here to watch an Auction.com Disposition Download episode on how proactive pricing at auction can help sellers increase sales and minimize losses

Servicers Expect Foreclosure Start Roll Rates to Rebound in Second Half of 2023

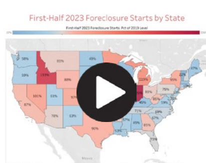
- Respondents expecting monthly roll rates of 6.4% for rest of 2023
- Up from under 1% during pandemic-triggered foreclosure moratorium but still below 2019 level of 8.7%

What do you expect for the monthly roll rate from 90-day delinquent inventory to foreclosure start for the rest of 2023?



Survey respondents expect an average 6.4 percent monthly roll rate from seriously delinquent to foreclosure start for the second half of 2023. Applied to the 483,000 seriously delinquent loans nationwide reported by Black Knight as of the end of May 2023, that would translate into about 30,000 foreclosure starts a month. Through May, foreclosure starts were averaging just under 29,000 a month, according to Black Knight data.

The 6.4 percent roll rate would be up from an average roll rate of 5.5 percent so far in 2023 through May and up from an average roll rate of 4.7 percent in 2022. The average roll rate during the pandemic-triggered foreclosure moratorium (April 2020 to December 2021) was 0.4 percent. The average roll rate prior to the pandemic, in 2019, was 8.7 percent.

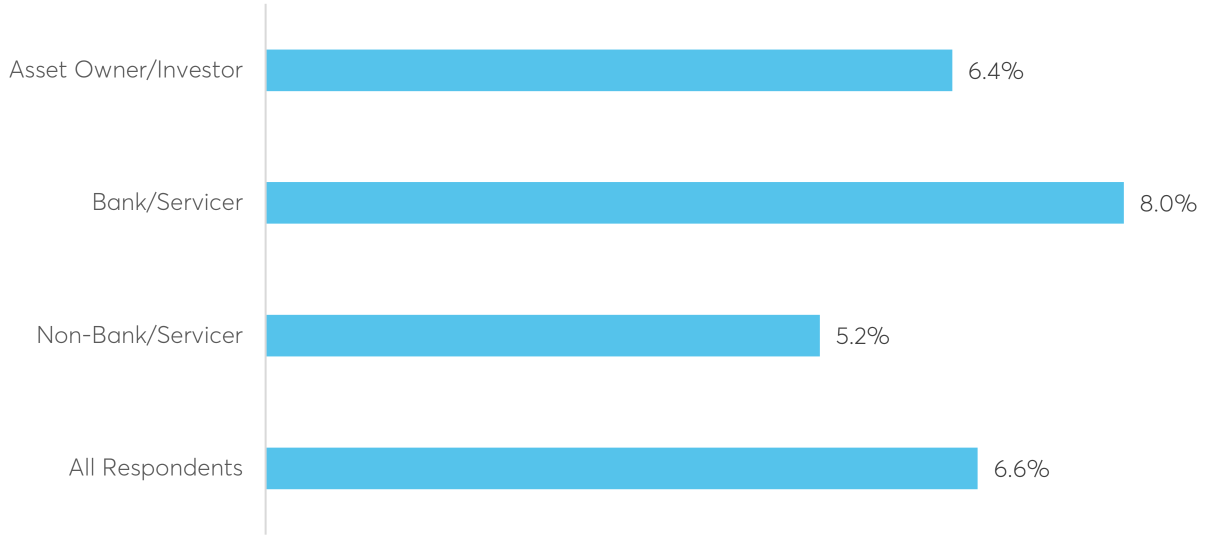


Click here to see a heat map of foreclosure start volume by state in the first half of 2023 relative to each state's first-half 2019 foreclosure start levels.

Servicers Expect Foreclosure Auction Roll Rates to Jump in Second Half of 2023

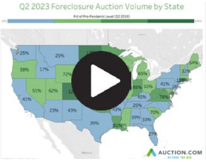
- Respondents expecting monthly roll rates of 6.6% for rest of 2023
- Up from under 3.4% in 2022 and above 2019 level of 4.6%

What do you expect for the monthly roll rate from foreclosure inventory to completed foreclosure auction for the rest of 2023?



Survey respondents expect an average 6.6 percent monthly roll rate from foreclosure inventory to foreclosure auction for the second half of 2023. Applied to the 229,000 mortgages in foreclosure inventory reported by Black Knight as of the end of May 2023, that would translate into about 15,000 completed foreclosure auctions a month. Through May, foreclosure actions were averaging just under 7,000 per month, according to Black Knight data.

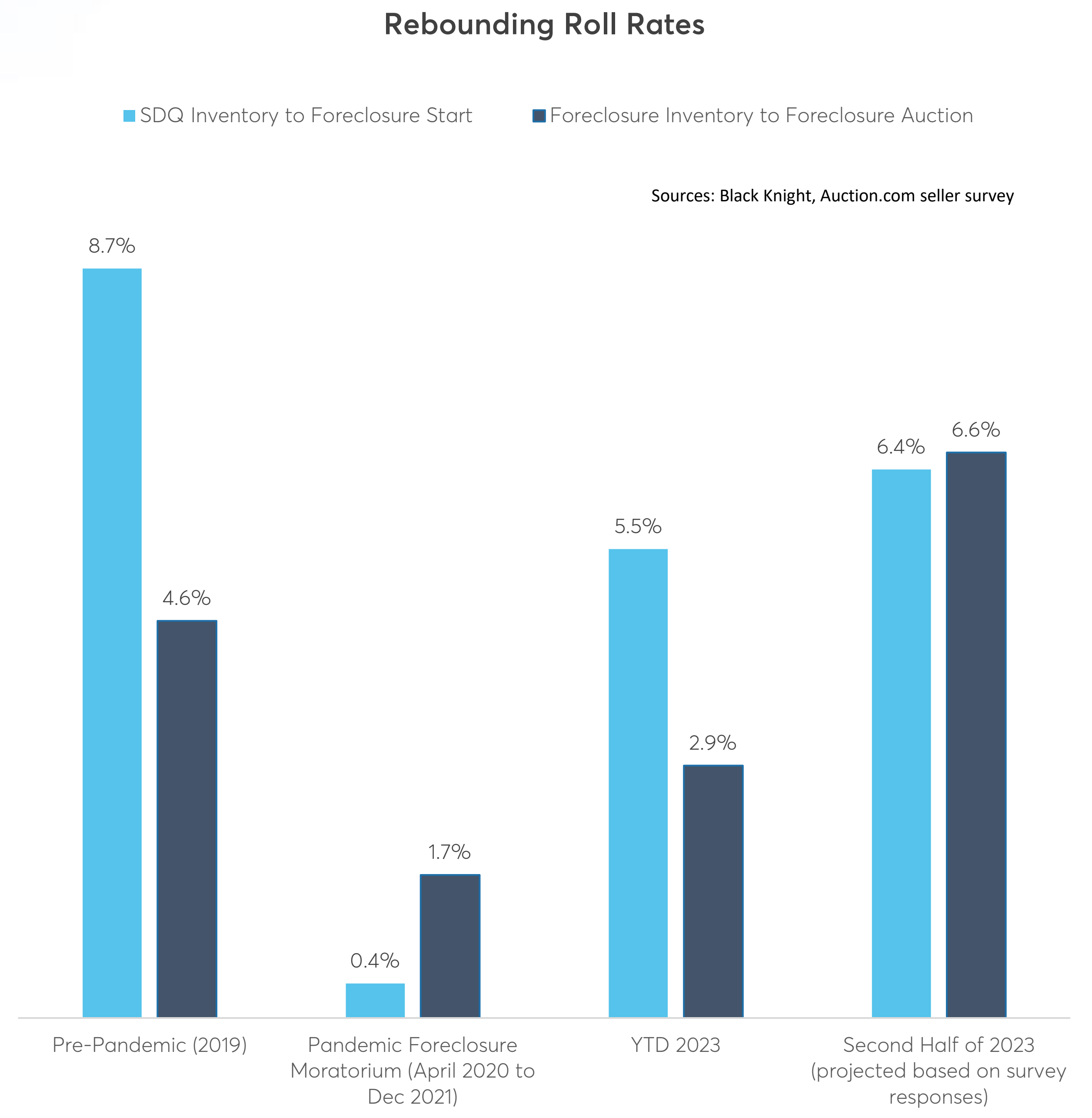
The 6.6 percent roll rate would be up from an average roll rate of 2.9 percent so far in 2023 through May and up from an average roll rate of 3.4 percent in 2022. It would also be well above the average roll rate of 4.6 percent in 2019.



Click here to see a heat map of foreclosure volume by state in the second quarter of 2023 relative to each state's 2019 foreclosure volume levels.

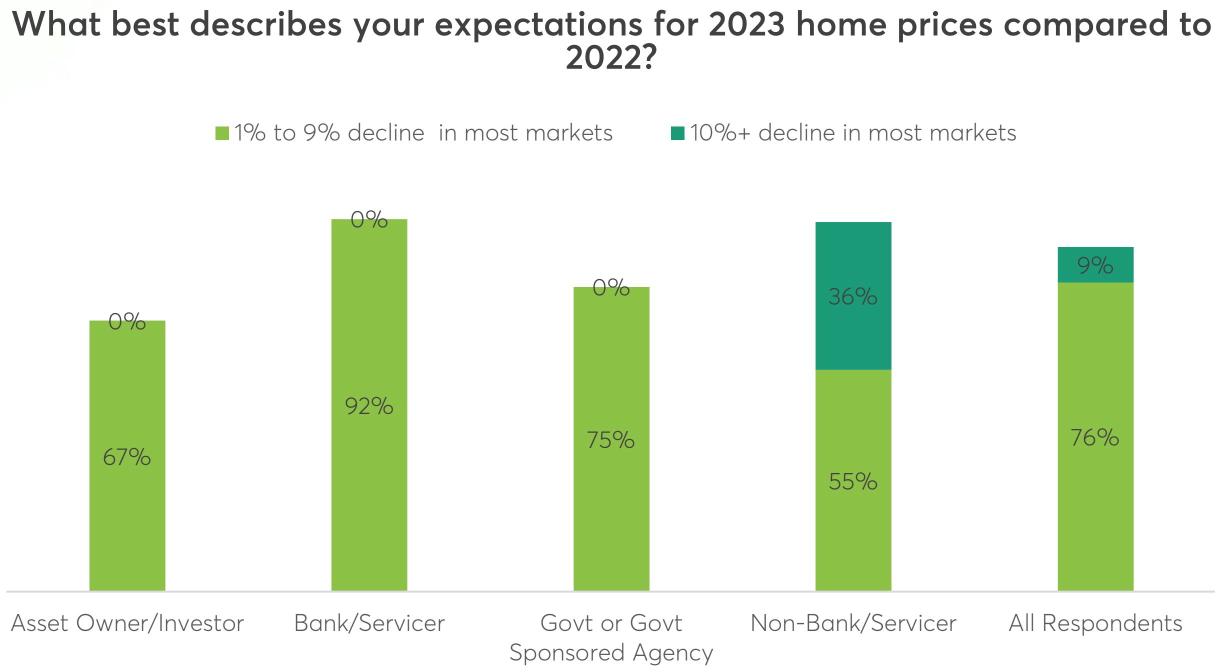
Foreclosure Roll Rates Expected to Continue to Rebound in Second-Half 2023

> "Auction.com clients expect delinquent loans at the top of the distressed market funnel will gradually move to the bottom of the funnel in the second half of 2023, returning foreclosure volume closer to the levels we saw back in 2019."
>
> **Ali Haralson,**
> Auction.com
> President



85% in Default Servicing Space Expect Home Price Decline in 2023

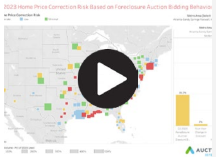
- 76% expect prices to decline less than 10%
- Bank servicers and nonbank servicers more bearish on home prices while mortgage investors and government agencies more bullish



Nearly nine in 10 survey respondents (85 percent) said they expect home prices to decline in 2023 compared to 2022, with 76 percent saying they expect that decline to be less than 10 percent.

Bank and non-bank servicers were more bearish on home prices, with 92 percent of bank servicers and 91 percent of nonbank servicers surveyed saying the expect a home price decline. Non-bank servicers were the only category of survey respondents have a segment that expects 2023 home prices to decline 10 percent or more (36 percent).

Mortgage investors and government agencies were more bullish on home prices, with 33 percent of mortgage servicers and 25 percent of government agencies saying the expect home prices to increase in 2023 compared to 2022.



Click here to view a heat map of home price correction risk by metro area for the second half of 2023 based on bidding behavior on Auction.com.

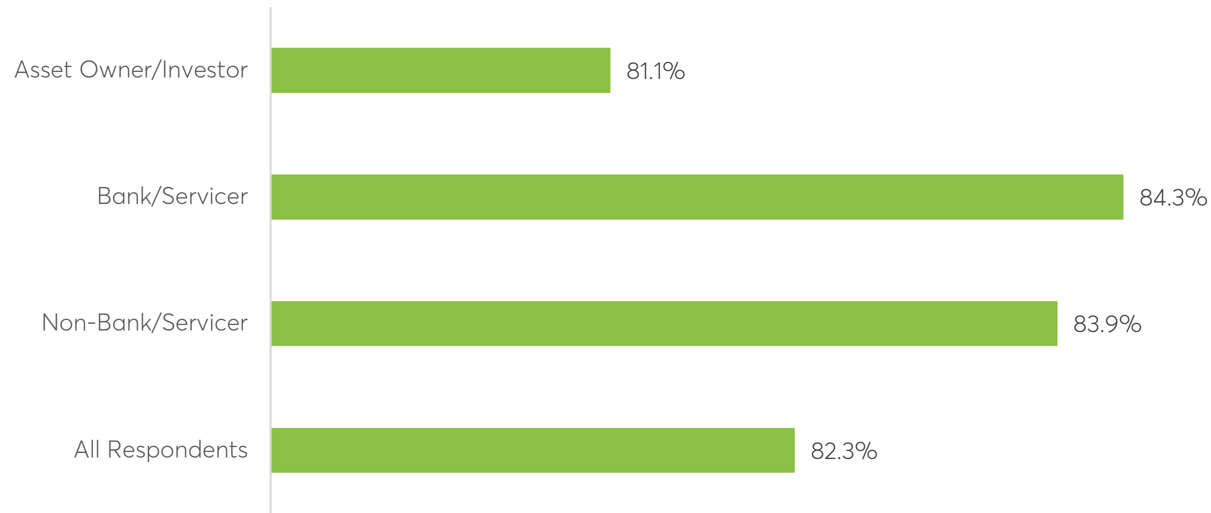
Seriously Delinquent Loans Have Less Than 20 Percent Equity on Average

- Survey respondents estimated an average loan-to-value (LTV) ratio of 82.3% for SDQ loans in their portfolio

"Delinquent mortgages with less than 10 percent equity may not provide enough cushion for distressed homeowners to sell on the retail market without resorting to a short sale, but a transparent foreclosure auction marketplace can still deliver that equity to homeowners."

Daren Blomquist,
VP of Market Economics
Auction.com

What is your estimate of the average combined loan-to-value (CLTV) of the seriously delinquent loans in your portfolio?



Survey respondents estimated an average loan-to-value (LTV) ratio of 82.3 percent for seriously delinquent loans in their portfolio. That translates into average equity of less than 20 percent.

Home equity is often viewed as a firewall against foreclosure for seriously delinquent borrowers, allowing them to refinance or sell to avoid foreclosure.

A minimum of 10 percent equity is typically considered the threshold at which borrowers can sell and still walk away with cash at the closing after paying off the mortgage along with sales and closing costs.

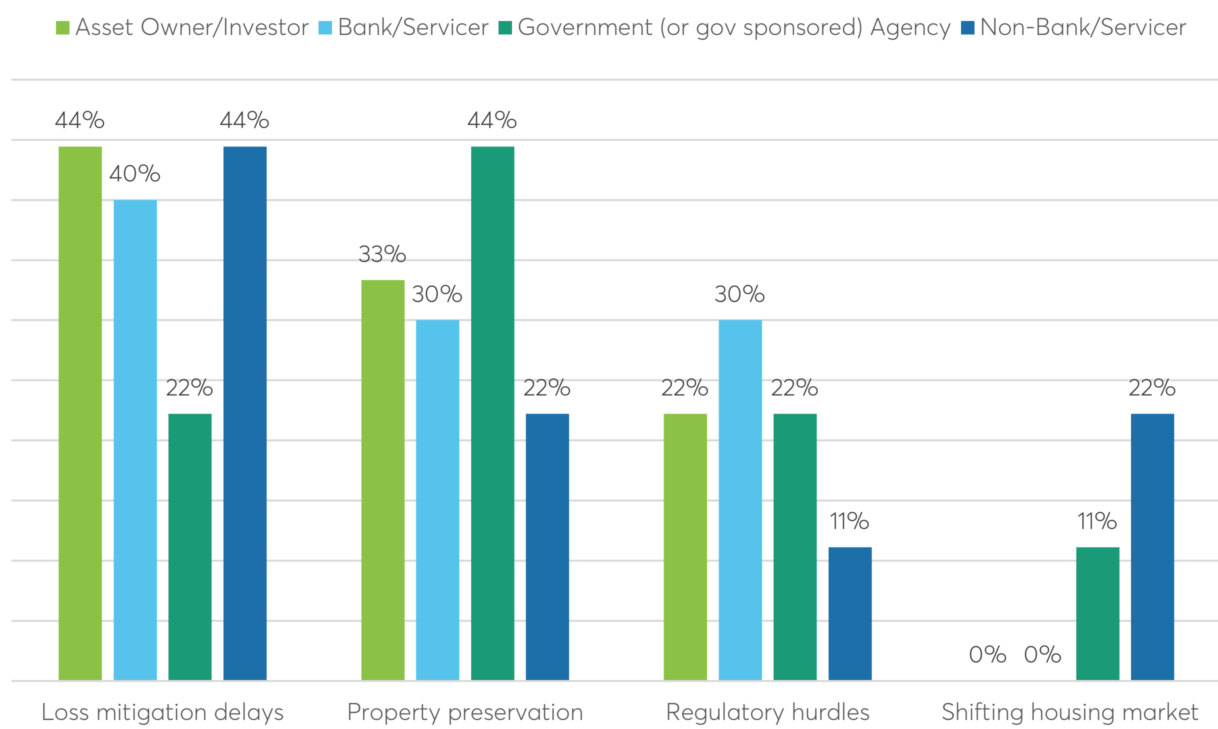
Bank servicers estimated the highest average LTV ratio – and therefore the lowest average equity -- of any survey segment, 84.3 percent, followed closely by non-bank servicers at 83.9 percent.

Servicers and Investors Rank Loss Mitigation Delays as Top Disposition Challenge

- Government agencies rank property preservation as top disposition challenge

> **"While loss mitigation delays can be challenging from a disposition perspective, those delays are evidence that default servicers are going the extra mile when it comes to helping homeowners avoid foreclosure and protect home equity."**
>
> **Joe Cutrona,**
> Chief Business Officer
> Auction.com

What is the top disposition challenge you are facing?



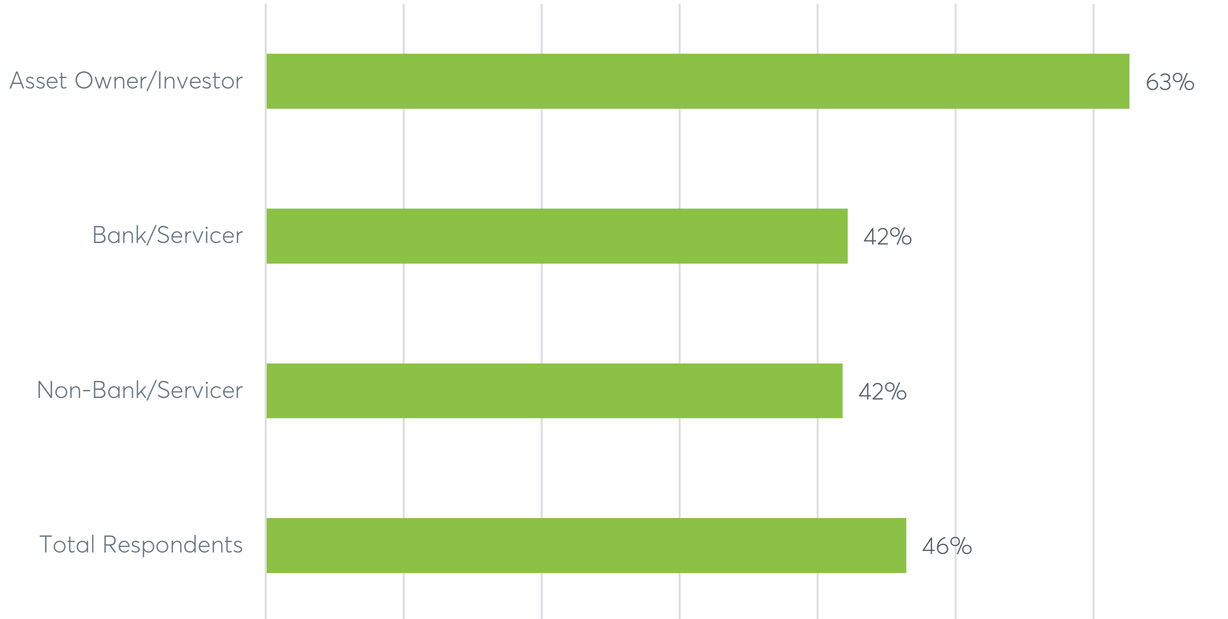
Overall, 38 percent of survey respondents said loss mitigation delays were the top disposition challenge they are facing, the highest of any challenge, followed by property preservation (31 percent), regulatory hurdles (21 percent) and a shifting housing market (10 percent).

Bank servicers, non-bank servicers and mortgage investors all ranked loss mitigation delays as the top disposition challenge, but government agencies ranked property preservation as the top disposition challenge, with 44 percent of survey respondents in that segment saying it was their top challenge.

Nearly Half of SDQ Inventory Eligible for Partial Claim-Funded Payment Supplement Account Proposed by HUD

- Lowest share estimated by bank servicers while highest share estimated by mortgage investors

What share of your organization's FHA SDQ do you estimate has enough partial claim available for HUD's proposed Payment Supplement Account?



Survey respondents estimated on average that 46.4 percent of the seriously delinquent loans in their portfolio insured by the Federal Housing Administration (FHA) would have enough partial claim capacity to fund the Payment Supplement Account (PSA) program recently proposed by the U.S. Department of Housing and Urban Development (HUD).

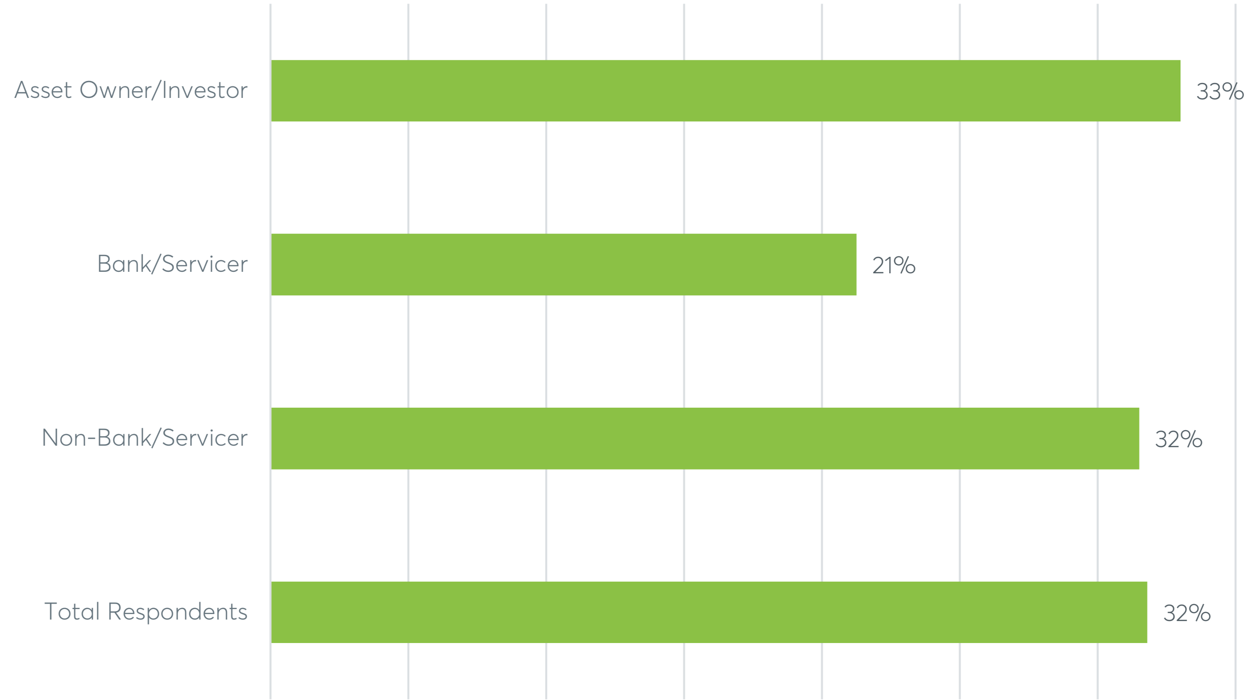
The HUD proposal, which was open for comments as of the publication of this report, would allow servicers to leverage the partial claim allowed for FHA-backed loans to supplement 25 percent of borrowers' monthly mortgage payments for four years and 12.5 percent for a fifth year.

Among the three survey segments (excluding government agencies), mortgage investors reported the highest share with enough partial claim available for the proposed PSA program (63 percent). Both bank servicers and non-bank servicers estimated 42 percent with enough partial claim capacity for the PSA program.

32% Confidence That PSA Program Could Be Implemented Within 180 Days of Program Launch

- Lowest share estimated by bank servicers while highest share estimated by investors

How confident are you that your organization could implement PSA in 180 days?

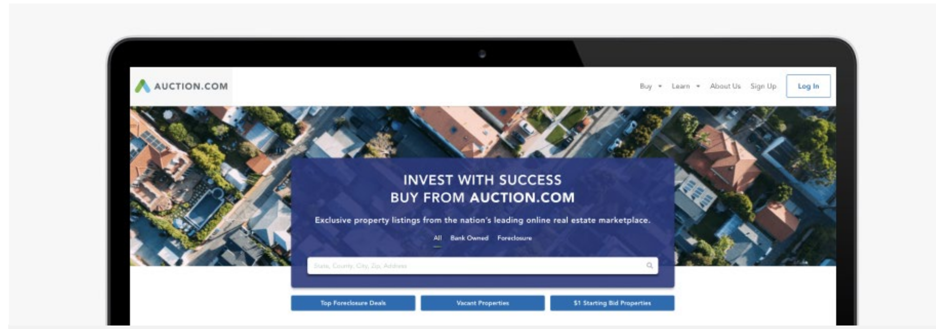


Survey respondents overall said they were 32 percent confident that their organization could implement the HUD-proposed Payment Supplement Account (PSA) program within the 180-day window suggested in the proposal.

Among the three survey segments (excluding government agencies), bank servicers were the least confident their organization could implement the PSA program within 180 days of the program launch (21 percent).

Non-bank servicers were 32 percent confident their organizations could implement the proposed PSA program within 180 days of the program launch while mortgage owners were 33 percent confident.

Report Notes and Methodology



Daren Blomquist

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.

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Report Methodology

The Auction.com 2023 Seller Insights report is based on a June 2023 survey of more than 50 leaders in the default mortgage servicing industry at the Auction.com Disposition Summit in Dallas. Survey respondents included default servicing leaders from mortgage asset investors, bank servicers, non-bank servicers, government agencies and government-sponsored enterprises.

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