Prospectus

Home Equity Loans, 2011

- **Succeeding In Tough Times: Special Section**
- **Housing Recovery: Postponed By Uncle Sam**
- **Full-Year 2010 Industry & Lender Portfolios**
- **Credit Crisis: 2010 Measures Of Improvement**
- **Top Player Rankings**
  - **Portfolios & Market Shares**
  - **Heloc & Closed-End Breakout Data**
  - **Early-Stage & Late-Stage Delinquency**
  - **Net Chargeoffs**

Optional Volume 2:
Best & Worst Metro Markets For HE Lenders

Summary of the Study	Page 2
Highlights **Succeeding In Tough Times: New Ideas** **In Focus: Bank Of America** **Home Values: Waiting For Godot** **Changed Consumer Borrowing: Encouraging**	Pages 3-4
Outline of Contents	Pages 5-7
Optional Volume 2: Best & Worst Metro Markets	Page 8
ORDER FORM	INSERTED

SMR Research Corporation

300 Valentine St. • Hackettstown, NJ 07840 • Phone 908-852-7677 • Fax 908-852-6884
WWW.SMRRESEARCH.COM

SUMMARY OF THE STUDY

Improved home values – the key to restoring home equity loan production and positive net income – are no closer now than in our annual study last year.

Making matters worse: new federal plans. Just one of these will force Fannie Mae and Freddie Mac to require minimum 10% downpayments to buy a home – potentially removing 30% to 40% of housing demand, by our measure.

Credit quality is now improving – but only from horrible to very bad. The home equity lending industry as a whole continues to lose money.

Is that it, then? More gloom heaped on last year's doom? Surprisingly, the answer is: <u>not necessarily</u>.

Two sections of this research study outline very specific plans with which any lender could "churn the portfolio" to make a faster return to prosperity. We back these ideas up with statistical evidence.

By "churn," we mean accelerated write-off of bad loans enabled by accelerated new production of high-profit, credit-safe loans.

And there are other opportunities developing in the marketplace itself. Among them, consumer borrowing habits are changing.

We are rapidly seeing increased bifurcation of home owners into two camps: 1) hopelessly under water, and 2) home owners building equity via "cash-in" refinances and a rapid shift from 30-year to 15-year mortgage loans.

That second group, whose numbers we show, could form the backbone of a large, new, credit-safe crop of home equity borrowers in the coming years.

This study is our annual one devoted solely to home equity lending.

We have expanded data by company, now covering the Top 100 players in loan portfolios. We also report company-by-company data on delinquency, net chargeoffs, and other subjects.

Another special section this year takes a long, hard (very hard) look at the industry's leading player, Bank of America. It's time someone stood up and said what needs to be said about the nation's biggest bank.

This Prospectus has all the details. **Our optional Volume 2 supplement covers 198 U.S. metro markets, with scores and data identifying which are best and worst for home equity lending.**

An Order Form is enclosed or available on our web site. Thanks.

HIGHLIGHTS

Succeeding In Tough Times: New Ideas

What if someone told you there are large, identifiable segments of the home owner population that are not only credit-safe, but also are considerably more likely than the norm to want (and get) a new home equity loan?

You'd want a full explanation – with proof. We offer both in this year's SMR study.

In a special section, **Succeeding In Tough Times**, we begin with evidence that a major new concept we revealed in 2009 worked extremely well in 2010.

But mainly, this section identifies a <u>second</u>, brand new concept. It carves out a segment of 6 to 8 million existing home owners with generally great credit quality – **and who in 2010 were 86% more likely than the norm to successfully close on a new home equity loan!**

And better: We have their names and addresses (as do two other vendors).

Along the same lines, the **Profits** section of this year's study lays out an overall strategy for **"portfolio churning"** (rapid write-offs of bad loans and equally rapid replacement with new high-profit loans).

We identify <u>several</u> options for how to make it happen.

More than any other study SMR has ever done, this one is dedicated to describing specific, clear, "doable" strategies that can return any home equity lender to positive results.

In Focus: Bank Of America

Does the emperor have no clothes? It's not going to help our business at SMR, but enough is enough.

It's about time someone stood up and said what needs to be said about the nation's largest bank (and the largest player in home equity lending). We do so in a separate section of this study.

Here are two numbers that illustrate the point. If BofA didn't exist, the home equity industry's 90-day-plus delinquency rate would immediately drop by 39 basis points. The net chargeoff rate would improve by 54 bp!

What happened at BofA? A 30-year focus on a single goal – to achieve vast size by buying other companies – certainly worked. And that's all that worked. See the 13-page SMR analysis, and its conclusion: **This put-together monster should be disassembled.**

HIGHLIGHTS (continued)

Home Values: Waiting For Godot

In the famous play, two guys chat while sitting around waiting for Godot, a man who never shows up. It's much like the home equity execs who currently await the arrival of higher home prices to fuel a resurgence in the business.

Depressed home prices failed to rise in 2010, and now, 2011 looks dubious. **Even 2012 is a maybe, thanks to new federal government proposals.**

Maximum mortgage loan sizes at FHA, Fannie Mae, and Freddie Mac will be allowed to fall back soon to their pre-crisis levels – increasing the cost of buying a home. And that's just the start.

Treasury and HUD will require Fannie and Freddie to demand that new borrowers make minimum 10% downpayments on homes. According to data we have acquired, that would eliminate a huge sector of the home buyer population, pressuring home prices down further.

These and other proposed policies – like the complete "wind-down" of Fannie and Freddie – will be gradual, the Feds say. Gradual or not, they won't help. **See Section I of the study.**

But Changed Consumer Habits Are More Encouraging

In times past, people built equity by waiting for their home values to rise. No longer.

A large and growing segment of the population is now taking matters into their own hands.

Some are putting up cash to refinance into smaller mortgage loans. So-called "cash-in" refis now outnumber "cash-out" refis substantially.

Others are refinancing from 30-year mortgages into 15-year loans. They will be building equity fast.

Out of 37,075 refinances we recently observed for a random pool of 1 million home owners, nearly half were either "cash-ins" or swaps from 30-year to 15-year loans!

See this study for the numbers and their implications. Consumers are splitting into two camps: 1) hopelessly under water, and 2) determined equity builders. **Over the next several years, that second group will comprise a new crop of credit-safe, high-capacity home equity borrowers.**

Outline Of Contents

I. Introduction: The State Of The Industry

A. Summary Findings Of The Study
1. Industry Shrinkage In 2010
2. Credit Quality Improvement
3. Home Values Remain The Key To A Turnaround
4. Impact Of Proposed Federal Changes In Home Financing
5. Consumer Borrowing Habits Are Changing
6. Portfolio Churning Strategy
7. Heloc Credit Line Reductions Appear Nearly Finished

B. Home Sales & Prices: Challenges Remain
1. Analysis Of Recent Trends
2. Home Values Vs. Home Prices: The Difference
3. Home Sales & Pricing Charts
   a. Existing Homes Sold By Month, Annual Rate
   b. Median & Mean Home Selling Prices, Monthly
   c. Number of Newly Built Homes Sold, Quarterly
   d. Newly Built Homes, Median & Mean Prices, Quarterly
   e. Pending Home Sales Index, Monthly
4. Forward View: Zandi Grows Bullish
5. SMR's Expectations: More Tempered

C. Why New Federal Reforms Could Be Bad News
1. The 10% Minimum Down Payment; Likely Effect
2. Impact On Home Equity Lending

D. New Consumer Borrowing Trends
1. Effect Of "Cash-In" Refinances & Short-Term Mortgages
2. Measuring The New Equity-Building Trends
   a. Table: Cash-In Refis & Short-Term Refinances In 1MM Household Test File, Early 2011

II. Key Industry Metrics

A. With Housing Revival Still Ahead, Key Metrics Show No Progress
B. Relief In Sight? Not Yet.
C. Succeeding In A Downturn: Commentary
D. Changes In Market By Institutional Type Of Player
E. Home Equity Loan Originations: Method & Estimates
1. Table: Ratio Of Originations To Receivables, Thrifts & Credit Unions
2. Likely Breakouts: New Loans, New Draws On Existing Helocs

F. Other Analysis: Delinquency & Chargeoffs, Average Loan Sizes
G. The Heloc Draw-Down Rate: Now Stabilizing

H. Industry Metrics Tables
1. **Home Equity Market By Institutional Type Of Player, 2010 & 2009**
2. **Home Equity Loan Outstandings, 1993-2010**
3. **Home Equity Lines Of Credit Outstanding, 1993-2010**
4. **Closed-End Home Equity Loans Outstanding, 1993-2010**
5. **Market Share: Helocs Vs. Closed-End, 1993-2010**
6. **Home Equity Loan Originations, 1992-2010**
7. **Banks' Bad Loan Rates, 2002-2010, Heloc & C-E Breakouts**

Outline Of Contents (continued)

8. Average Loan Sizes, Four Categories, 2004-2009
9. Average Open-End Line Of Credit Owed At Credit Unions
10. Average Industrywide Heloc Line Utilization Rate, 1998-2010

III. Top U.S. Home Equity Lenders
- A. Down Year For Most
- B. HSBC Is Hardest Hit
- C. E*Trade & Ally Bank
- D. TD Bank Beats The Odds
- E. Top 25 Market Share; Industry De-Consolidation
- F. Where Leaders Stand Now Vs. Pre-Crash Year
- G. Winners & Losers In Receivables
- **H. Top Home Equity Lender Tables**
  1. Top 25 Lenders, 2010; Heloc & C-E Breakouts; Market Shares
  2. Other Lenders, Heloc & Closed-End Breakouts; Market Shares
  3. Leaders In Heloc Portfolios; Market Shares
  4. Leaders in Closed-End Portfolios; Market Shares
  5. Winners & Losers: Top 100 Lenders Ranked By Dollar Change, 2009-2010

IV. Credit Quality: Not Good, But Better
- A. Industrywide Credit: Crisis Continues, But With Some Improvement
  1. Measuring Dollar Declines In Bad Loans
- **B. Tables: Delinquency & Net Chargeoffs, All 11,426 Industry Players, 2010 Vs. 2009, With Heloc & Closed-End Breakouts**
- C. Analysis: Divergent Results, Highlights For Named Lenders
- D. Company Tables
  1. Top 100 Lenders Ranked By Rate Of High Delinquency
  2. Top 100 Lenders Ranked By 2010 Net Chargeoff Rate
- E. Credit Trends By Quarter In 2010; Tables
  1. Bank-Owned Helocs, Quarterly 90-Day+ Del. By Company
  2. Bank-Owned C-E Loans, Quarterly 90-Day+ Del. By Company
  3. Bank-Owned Helocs, Quarterly 30-89 Day Del. By Company
  4. Bank-Owned C-E Loans, Quarterly 30-89 Day Del. By Company

V. Bank Of America: Unclothed
- A. The Home Equity Leader Brings The Industry Down
- B. Litany Of Bad Numbers (With Table)
- C. Sole Strategy: 30 Years Of Acquisitions
- D. The Real Bank Of America: Still NationsBank
- E. Buying Innovation & Leading Positions By Product
- F. Chronological History Of An Acquirer (Tables)
  1. The Old NationsBank
  2. The Old Bank Of America
  3. The New Bank Of America
- G. What's Wrong With This Plan?
  1. "Nothing Gets Done;" Lots Must Be Done

Outline Of Contents (continued)

H. Favored On Wall Street, But Stock Keeps On Falling
I. Loan Production: Almost None
   1. Wells More Than Doubles BofA Production
   2. Is Sit Back And Wait The Plan?
J. Is Fast, Smart Change Possible?
   1. Disassembly Of The Conglomerate Is An Option

VI. Succeeding In Tough Times
A. Prior Concepts; New Ones
B. The Hot New Idea: A Focus On Mortgage Term
   1. The 15-Year Mortgage Borrower: A Credit-Safe Equity Builder
   2. How The Term Of A Mortgage Impacts Home Equity Originations
   3. Table: % Of All Mortgage Borrowers Who Got HE Loans In 2010, By Term Of The First-Lien Mortgage (30-Year, 15-Year, Etc.)
   4. Table: Major U.S. Counties Ranked By Concentration Of Short-Term Mortgage Borrowers
   5. Finding Individual Borrowers With Short-Term Mortgages
C. Update On Mortgage Debt-Free Home Owners As Marketing Targets
   1. Great Results In 2010
D. Update On Use Of Occupational Data To Cut Risk
   1. Through 2011, Same Jobs Look Worst (BLS Unemployment Table)

VII. Clawing Back Toward Profitability
A. Portfolio Churning: The Best Way Back
B. But Old Thinking Still Prevails
C. The General Theme In A New Plan
D. List Of Potential Tactics
   1. Direct Marketing Concepts
   2. Utilizing Loan Application Information In New Ways
   3. Targeted Media Advertising
   4. Affinity Marketing
E. Finding The Necessary Data
F. Profitability Of HE Lending In 2010
   1. Still Grim News
   2. Tables & Chart: Return On Assets For All Institutions, Grouped By % Of Assets In Home Equity Loans
   3. Major Players' Corporate-Level Profitability
      a. Capital One's Interesting Potential
   4. 22 Of 100 Lost Money
   5. Credit Unions: Strong Non-Profit Profits
   6. Table: Top 100 Home Equity Lenders Ranked By 2010 Corporate Return On Average Assets

Appendix:
Vital Data On All Major Home Equity Lenders
Summary Portfolio, Delinquency, Net Chargeoff, & Line Draw-Down Data On Each Of The 238 Largest Players With Portfolios Of $200 Million-Plus

Best & Worst Metro Markets For Home Equity Lenders

This study is an optional supplement to the annual home equity study and statistically evaluates the best and worst U.S. metro markets for home equity lenders. We cover 198 cities.

Relying on our property database, we deliver 14 crucial statistics for each city. The last is our Overall Attractiveness Score, built by observing the degree to which all the other numbers were better or worse than national norms.

Clients get the data in Excel spreadsheet format, along with a Word file that explains methodologies and evaluates results. The data points include:

- **Number** of home equity loans originated over 12 months ended April, 2011, versus the number originated in the prior 12-month period.

- **Dollars** of home equity loans originated over the same 12 months, versus those of one year earlier.

- **Growth rate:** Year-over-year percent change in numbers and dollars of loans.

- **Average size** of home equity loans produced over the last year.

- **Popularity of the product:** The percent of all home owners who currently have a home equity loan.

- **Credit risk #1:** Percent of home owners near or over max borrowing capacity, because their combined loan-to-value (CLTV) ratios exceed 85%.

- **Credit risk #2:** Percent of home owners under water, with CLTV over 100%.

- **Credit risk #3:** Percent of home owners with subprime loans.

- **Opportunity segment #1:** Percent of home owners with zero mortgage debt (available to get home equity loans that occupy the senior lien position).

- **Opportunity segment #2:** Percent of mortgages that are short-term (like 15-year mortgages). These are credit-safe equity builders, and recently have been 86% more likely than the norm to close on a new home equity loan.

- **SMR Overall Attractiveness Score:** A score of 100 is average. Higher is better.

The data on the two credit-safe opportunity segments may be the most important and have never been disclosed before.

This supplement is available as a stand-alone product, but the **price is discounted by 50%** for those who also purchase the main study. See the **Order Form.**