Prospectus

Home Equity Loans, 2013
A Time Of Change

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SMR Research Corporation

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

WWW.SMRRESEARCH.COM

SUMMARY OF THE STUDY

Huge changes are underway now in the home equity lending business:

● **The mortgage refinancing boom has paid off thousands of existing home equity loans, causing the biggest one-year decline ever recorded in U.S. loans outstanding.**

● **But at the same time, production of new home equity loans finally increased in 2012 after five long years of steady, sharp decline.** And, the future in loan production looks even better.

● **Credit quality, the bane of the industry, was improving steadily. But now, the improvement has stopped.**

● **Lenders are just beginning to cope with a swell of Heloc borrowers reaching their 10-year anniversary dates – the moment when most will face higher, fully amortizing monthly payments.**

How big will the 10-year conversion dilemma become? Is it something to fear in terms of defaults? Or is this the opportunity of a lifetime to originate new Helocs to replace the maturing loans?

This year's annual SMR study of the home equity lending business covers these events and more.

A special section includes counts of numbers of Heloc borrowers reaching their 10-year anniversary dates – in 2013, 2014, 2015, and 2016. The numbers are absolutely gigantic.

Change in the industry is occurring at high speed – on these subjects and others.

Credit unions, outselling banks, have hit 10% market share. Wells Fargo has overtaken industry-leader Bank of America in total approved Heloc credit lines. Closed-end home equity loans have hit a new low, and Helocs have achieved a record share of the market.

Perhaps most importantly, mortgage interest rates are now rising. Soon, home owners who need cash will no longer want a refi, and the home equity loan will again become the product of choice.

In short, nearly all that was true from 2008-2011 in home equity lending is now changing.

See the Outline of Contents in this Prospectus for details on this year's coverage. See Highlights for more on the key events of the moment. An Order Form is enclosed or available on our web site. Thanks.

HIGHLIGHTS

Receivables: Down

In 2012, a true mortgage refinancing boom was underway. Home equity loans by the tens of thousands were being paid off in the process.

The government's HARP2 program, heavily used, made matters worse.

By the end of the year, total industrywide home equity loans outstanding had plummeted more than 11% from 2011.

It was the biggest single-year drop in history, leaving the total market well below $750 billion. This business once had topped $1 trillion.

Huge sums of anticipated (and badly needed) interest income disappeared in 2012.

How about 2013 and beyond? More change, we believe, is coming, and this time in a positive direction. See below for more on that.

Originations: Up

Home equity loan production fell by an enormous amount from 2007 through 2011. Each year saw double-digit annual percentage declines. In 2009 – just one year – annual loan production dropped by nearly 30%.

Now, production is rising again. The increase in 2012 was modest by historic standards, but in comparison to prior recent years, it was a huge win.

What happened? We have devoted a large section of this year's study to analysis of likely future increases in home equity loan production.

Underpinning our optimism are SMR data, illustrated in chart form, showing the long correlation between owner equity in housing and annual home equity loan volume. **Equity is rising – and for more reasons than just the recent increases in home prices.**

At the same time, mortgage refinances are ebbing already and will stop almost entirely when interest rates rise. **What some folks don't realize is how long this stoppage will last.** A special SMR analysis of current borrowers shows a large majority may never refinance again once mortgage rates rise more substantially (and they will).

We foresee a near future when home owners who need cash will turn back to the home equity loan to get it. And with time, more and more will qualify.

HIGHLIGHTS (continued)

The 10-Year Heloc Maturity Dilemma

If you look back at the historical data, you find a big swell in numbers of Helocs originated from 2003 to 2006.

Now, a lot of those loans are going to reach their 10-year anniversary dates – the moment when most Helocs end their draw period and become fully amortizing loans, requiring higher monthly payments.

This could be a big new problem for Heloc credit quality. Some people have trouble making higher payments.

Indeed, it could help explain why, at the end of 2012, the Heloc delinquency rate was getting worse, as highlighted in the Credit Quality section of the study.

Or, this could be the opportunity of a lifetime in new loan production, since so many borrowers will likely want to refinance their existing Helocs into new ones, resuming interest-only payments.

However you view this event, Step 1 is to scope out the size of it. We have done so through analysis (one loan at a time) of some 42 million home owners, where we have origination dates for those with home equity loans.

The results are staggering. Some of the 2003-2006 loans no longer exist due to moves or refinances. But those that remain are still immense. Section VI of the study includes the SMR study of 10-year Heloc maturities.

Competition

Although there are plenty of industrywide subjects to cover this year, we continue as well to rank the major players in the home equity business.

We have the Top 100 banks and credit unions (thrifts are now banks), ranked by total home equity receivables, with Heloc and closed-end loan breakouts, change from the prior year, market shares, and Heloc line utilization rates.

There's more company-by-company data, too, on loan delinquency and net chargeoffs through yearend 2012.

Wells Fargo now exceeds Bank of America in total extended Heloc credit lines, but not yet in outstandings. PNC is moving up. HSBC has fallen sharply. See all the rankings in Section IV.

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SMR's annual vital statistics on lenders include all with home equity loans of $200 million or more (more than 200 competitors for 2012).

Companies are listed alphabetically for easy peer-competitor viewing. Data items include portfolio size, change from the prior year, delinquency rate, net chargeoff rate, Heloc draw-down rate, company type, name, and city and state location.

Finding The Customer

This research study, we believe, makes clear that the recent increase in home equity loan production is only the beginning of a long upward trend.

If you want to participate, you can wait for customers to walk in the door, or you can be pro-active.

Since 2005, SMR has been creating monthly updated scores that rank-order home owners for their likelihood to get a home equity loan during the next four months.

Among all the predictive model scores we create, our home equity loan score is probably the best: highly predictive, and with a long, strong track record.

You can use high-scored names and addresses for new prospect marketing. Or, we can append home equity probability scores to your company's existing customer list.

As far as we know, SMR is the only U.S. firm that has built a home equity loan probability score. **And we apply it to more than 50 million home owners – even to those who have no first-lien mortgage.**

Using our property records database, we are able to model against a closed-loan result. That is, our scores are designed to forecast not merely who will apply for a loan, but who will be approved and get that loan.

In short, the scores forecast both desire for a loan, and qualification to get it.

And additional layers of data are available to add.

Right now, for example, we can screen for existing home equity customers coming close to their 10-year maturity dates. Many will want a new Heloc to replace an existing one. Toss in the SMR score, and you have a winning combination for new loan generation.

We all know that ultimately, mortgage rates are going to rise substantially, and mortgage refinances will come to an end. Then, home owners who need cash will turn to the home equity loan again.

Your company can get its share of this coming surge – and more besides – using good data.

For more information on home equity scores, contact Jon Varone: 908-852-7677, or email: Jonathan.Varone@SMRresearch.com.