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New Equifax Study: Silent Seconds from the Borrower Perspective

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To view this report as a .pdf file, visit

<http://www.equifax.com/PR/capmarket/CapitalMarketsDataPrimerFN.pdf>

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Silent Seconds: Resounding Impact

While home price depreciation shows signs of slowing, secondary mortgage market investors still have reason to be concerned about the impact of borrower equity. According to a recent study conducted by Equifax Capital Markets, the combined loan to values (CLTVs) on current loans are worse than many realize. While home prices have dominated headlines, the increased prevalence of second liens has gone underreported. In July 2009, 25% of borrowers with current Alt-A loans had closed-end seconds compared to 10% of borrowers in July 2005.

The Equifax study analyzed the state of non-agency securitized mortgage borrower health from Q3 2005 to Q3 2009 by leveraging borrower credit information, FHFA home price data and loan-level data. To conduct its analysis, Equifax statisticians isolated the population of non-agency securitized mortgages and studied the performance of these loans across key default risk trends.

CLTVs: Are You Aware of All Subordinate Liens?

CLTVs worsened dramatically in 2008. According to Equifax research, the average CLTV for current Alt-A loans increased from 75% in July 2005 to 107% in July 2009. This is driven by home price declines and a dramatic increase in the prevalence and size of second liens. What's striking is the substantial impact of second liens reported on the borrowers' credit files - liens that are not reported in loan-level data.

Figure 1 - CLTV for Current Prime and Alt-A Loans Over Time

http://www.equifax.com/PR/capmarket/Figure_01.jpg

Behind the Loan: Surprising Findings About Borrower Debt Load

By analyzing credit line utilization and balance trends on non-mortgage loans, Equifax research uncovered some compelling findings. While a significant number of sub-prime mortgage borrowers have typically had high utilization of their revolving credit lines, Alt-A and Prime borrowers caught up in July 2009. 22% of Alt-A borrowers with a current mortgage loan utilized 80% or more of their total revolving credit in July 2009, up from 10% in July 2005.

Figure 2 - Percent of Current Securitized Mortgage Borrowers with High Revolving Credit Utilization

http://www.equifax.com/PR/capmarket/Figure_02.jpg -

HELOCs represent a significant portion of borrowers' revolving debt. According to Equifax data, HELOCs remain prevalent within current Alt-A and Prime loan borrowers. Specifically, 45% of prime and 33% of Alt-A borrowers with securitized mortgage loans that are current had a HELOC in July 2009.

Figure 3 - Current Securitized Mortgage Borrower HELOC Trends

http://www.equifax.com/PR/capmarket/Figure_03.jpg

Industry Expertise

"As home prices moderate, comprehensive and up-to-date information on second liens, including whether they exist as well as their balance and payment status, will become more critical for investors to know in order to accurately value non-agency mortgage-backed securities and whole loans," said Steve Albert, vice president, Equifax Capital Markets.

Equifax Capital Markets

Equifax's suite of Capital Markets solutions empowers lenders and investors to make buy/sell decisions with the most up-to-date borrower and property value information available. Leveraging unique data with advanced analytics and risk projection strategies, Equifax provides unique, forward-looking information to help investors manage through this highly sensitive credit environment. For more information about Equifax Capital Markets, visit www.equifax.com/capitalmarkets.

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