



the PIPELINE

Model Update

Enhancements to the LoanDynamics™ Model

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We have made some enhancements to the LoanDynamics™ (LDM) model that impact the S-T (seriously delinquent to terminated) transition and the severity model. The foreclosure timelines in the model now reflect more recent trends, given legislative and social changes taking place in the housing market.

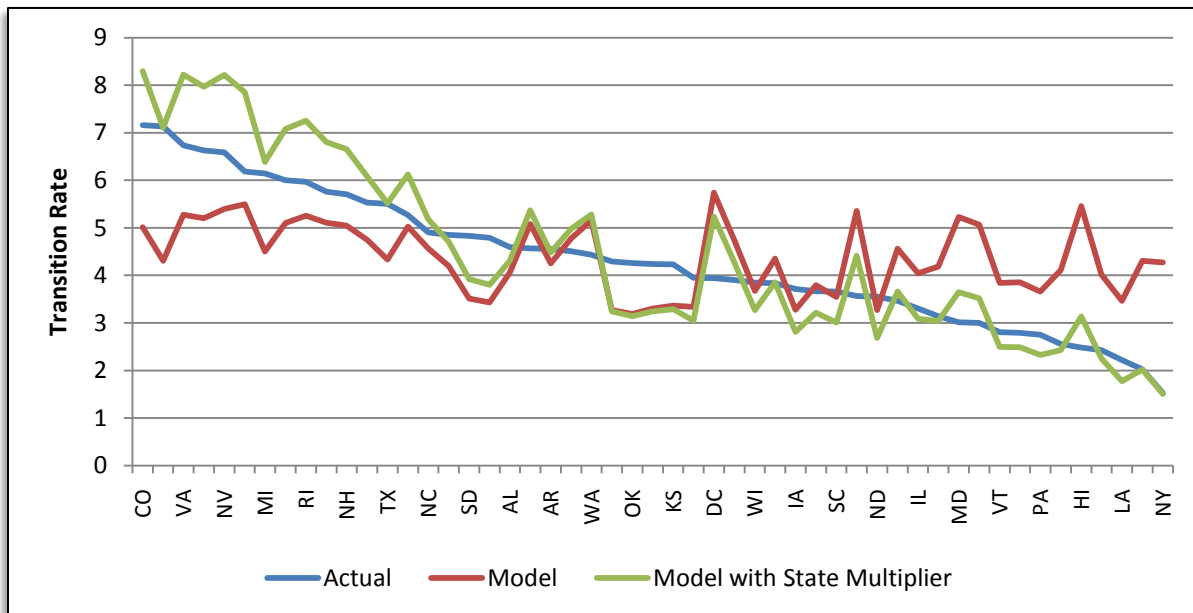
Specifically,

1. The S-T transition now has State level multipliers
2. The State foreclosure timelines have been updated in the severity model to reflect recent foreclosure dynamics

State Multipliers for the S-T transition

The current release of the LDM model does not have any State level multipliers in the S-T transition. We found that it takes longer in certain States to complete the foreclosure process. To incorporate this phenomenon, we added State level multipliers to the transition. The effect can be seen in Chart 1 below.

Chart 1

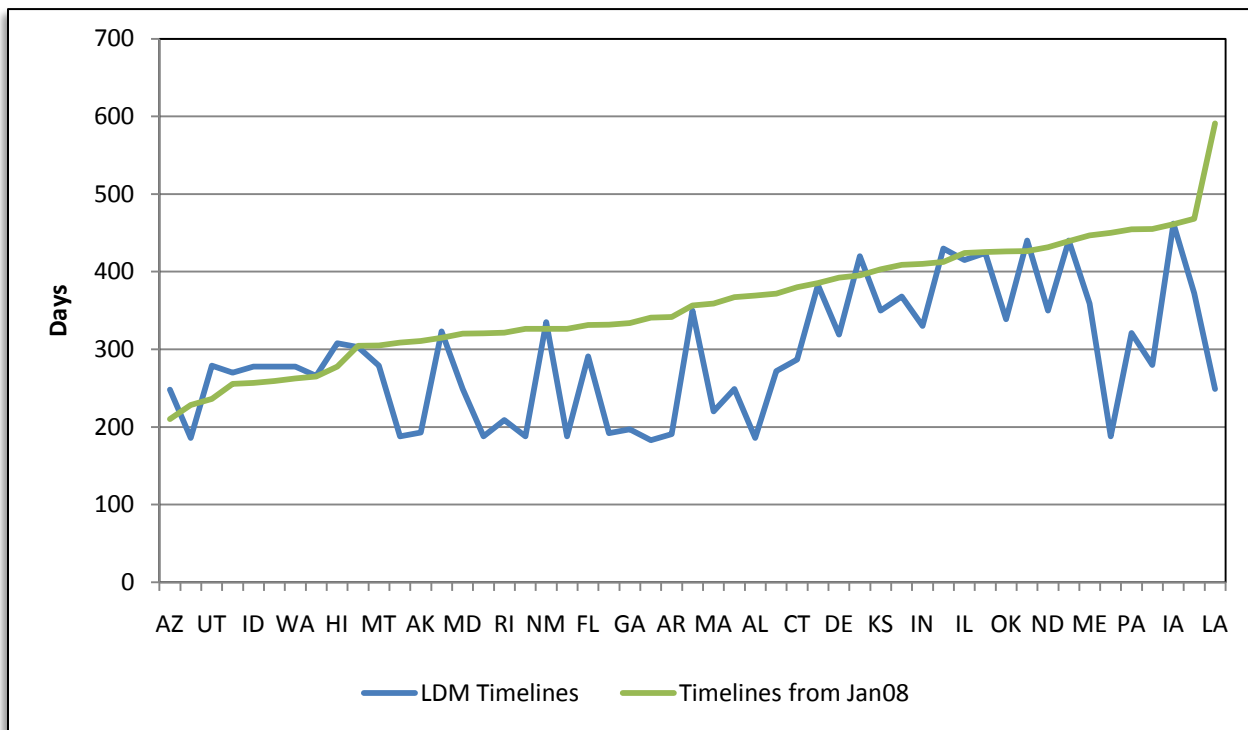


In the chart, States are sorted in order of decreasing S-T transition rate (average over the last three years). The blue line shows the actuals. The red line shows model forecasts for the same time period. We see that the red line lacks a slope because of the absence of State multipliers. The green line shows the forecasts with the State multipliers. The multipliers are slightly over predicting the high S-T States. However, the lower end is doing a better job.

Updated Foreclosure Timelines in the Severity Model

Even though the severity model has foreclosure timelines built in, we updated the timelines based on data over the past 3 years. Most timelines have increased slightly due to legislative and social changes taking place in the housing sector. The results can be seen in the chart below.

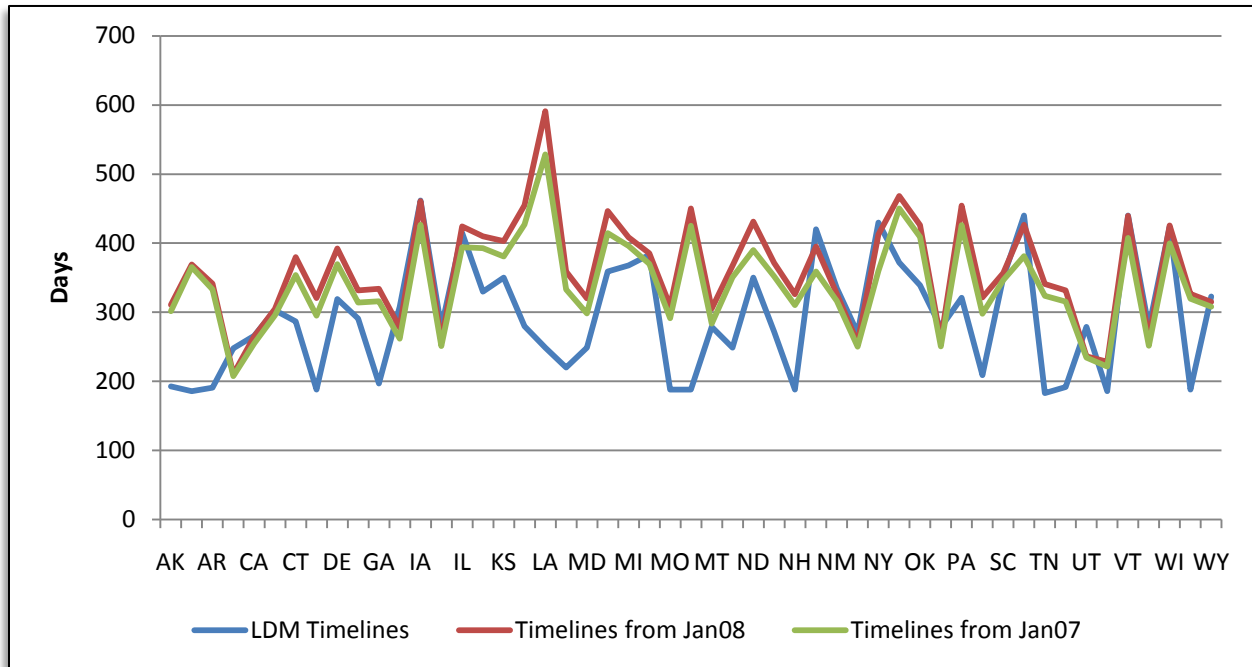
Chart 2



In the chart above, the blue line shows the current foreclosure timelines in days. However, as the green line shows, the timelines have gone up in virtually every state since January 2008. This once again is a reflection of the legislative and social changes taking place in the economy that is making it difficult and prudent for servicers to hold off on completing a foreclosure process.

Chart 3 below has the States sorted in alphabetic order. The green line shows the foreclosure timelines as of January 2007. The red line shows the foreclosure timelines as of January 2008. We see that in most cases, the timelines in January 2008 are higher than those in January 2007.

Chart 3



These enhancements will soon be incorporated into a beta version of the LDM model. The beta version of the model will be available upon request.

All new changes will henceforth be incorporated into a beta version first until we have thoroughly tested the model and made sure that there are no unintended consequences. An official version will be released after the beta period is complete.

The above changes should result in better forecasts for severity and the S-T transition. If you have comments or concerns, please let us know.

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