

NATIONAL DELINQUENCY SURVEY: FACTS

- The NDS is a voluntary survey of over 120 mortgage lenders, including mortgage banks, commercial banks, thrifts, savings and loan associations, subservicers and life insurance companies.
- **1952-1978:** Non-comparable data
1979-Present: Complete historical data are available
- In the fourth quarter of 2010, the NDS data covered about 44 million first-lien mortgages on one- to four-unit residential properties. The subprime sample of the survey totaled about 4 million loans.
- Using Census Bureau and other industry data, the NDS is estimated to cover around 85-88 percent of the approximately 50 million loans outstanding in the market.
- Delinquencies are reported as total delinquencies and in 30-59, 60-89 and 90+ day buckets, exclusive of loans in the foreclosure process.
- Foreclosures are reported as “foreclosure starts” and “foreclosure inventory.” The foreclosure starts measure represents loans that entered the foreclosure process during the reporting quarter and is a flow measure.
- The foreclosure inventory measure represents all loans in the foreclosure process at the end of the reporting quarter. This measure is influenced by a number of factors including state foreclosure statutes that establish how long it takes for a loan to work its way through the foreclosure process. Thus two states with the same rates of loans going into foreclosure can have different inventories of loans in foreclosure. The inventory is a stock measure and is not seasonally adjusted.
- The delinquency rates and foreclosure starts rate are seasonally adjusted to account for trends in the data that are caused by the time of the year. For example, delinquencies tend to increase from the first to fourth quarters, peaking in the fourth quarter, before falling in the first quarter of the next year and beginning the cycle again. While MBA provides both seasonally and non-seasonally adjusted foreclosure starts measures, our focus has recently been on the non-adjusted foreclosure rates because the statistical models behind the adjustments were estimated based on a much more benign environment. Since the current levels of delinquencies and foreclosures are far outside the range of most of the values used to build the models, the seasonally adjusted numbers may considerably overestimate or even underestimate the true long-term trends.
- The seriously delinquent rate is the non-seasonally adjusted (NSA) percentage of loans that are 90+ days delinquent or in the process of foreclosure. This measure is designed to account for inter-company differences on when a loan enters the foreclosure process.
- Survey statistics are reported at the national, regional and state levels. For each geographic classification, delinquency and foreclosure rates are reported by loan type (prime, subprime, FHA and VA) and for fixed-rate and adjustable rate mortgages.
- The delinquency and foreclosure rates are calculated based on the number of loans serviced and not the dollar value. For example, the overall delinquency rate is the total number of delinquent loans as a percentage of all loans serviced. This survey does not collect information on the dollar value of loans serviced.
- The United States and regional information is provided as seasonally adjusted and non-seasonally adjusted forms. States are only presented in non-seasonally adjusted data. For that reason, it is most appropriate when examining state-level data to make year-over-year comparisons.

- The NDS is not a scientific sample but relies on broad market coverage for its representativeness.
- Due to the fact that some survey participants only report nationally aggregated results, the state totals for loans serviced may not sum to the national total for any loan or product type. The difference between these totals are thus the loans that are unclassified by state. Similar logic applies to the fixed and ARM totals for each loan type. Fixed and ARM detail is not always provided, so for example, the sum of prime fixed and prime ARM loans may not sum to the published number for total prime loans serviced.
- While the NDS does not identify or track Alt-A loans explicitly, conversations with survey participants have established that Alt-A loans are divided between the prime and subprime groups. Thus, Alt-A loan performance is captured in the delinquency and foreclosure rates estimated in the NDS.
- Foreclosure and bankruptcy are separate and distinct actions. Borrowers file for bankruptcy to discharge unsecured debts. The foreclosure process transfers title in the property from the borrower to the lender as a result of the borrower defaulting on their mortgage debt, a secured loan.
- Loans subject to forbearance agreements are reported as delinquent, even if a restructured loan payment plan has been agreed to by both parties. The length of the delinquency is determined by the number of missed payments. The loan remains delinquent until it is current in accordance with the original loan contract.

NATIONAL DELINQUENCY SURVEY: FREQUENTLY ASKED QUESTIONS

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29. Upon examination of other industry housing data, there appears to be a disconnect between quarterly mortgage origination volume and the change in mortgage loans serviced. Why?
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31. What is a seasonal adjustment? Why do you seasonally adjust the data? What seasonal adjustment methodology do you use?*
32. What is “Shadow Inventory”?

INTRO TO NDS

1. What is the National Delinquency Survey (NDS)?

The NDS is a quarterly publication of the Mortgage Bankers Association which gives visibility into the relative health of the existing one- to four-unit first-lien residential mortgage market. The primary purpose of the survey is to measure the percent of borrowers who are late in paying their mortgages. In addition to mortgage delinquencies, the report also tracks measures such as foreclosure proceedings that were started in a given quarter (Foreclosure Starts Rate) and the percent of loans currently in the foreclosure process (Foreclosure Inventory Rate).

2. What types of companies participate in the NDS?

The NDS is a voluntary survey of over 120 mortgage lenders, including mortgage banks, commercial banks, thrifts, savings and loan associations, subservicers and life insurance companies.

3. The title is NDS, but does the report get any more granular in regards to geography?

Yes, each measure reported at the national level is available at the regional and state level. The only exception is the seasonally adjusted data. MBA does not seasonally adjust state-level delinquency data, therefore all state numbers are categorized as Non-Seasonally Adjusted (NSA).

4. Does the NDS get any more granular than the state level?

MBA’s survey does not have data below the state level. We do not collect data on the county, district or MSA levels.

5. Does your survey include special servicers?

We do not exclude special servicers from our survey, and do have special servicers providing data for our results.

6. Do you give out information on who participates in the NDS?

We do not release information that identifies or that could identify firms participating in the NDS.

7. Can I participate in the NDS?

If you are a servicer who wants to participate in the NDS, please contact MBAResearch@mba.org for more information. There are a number of benefits available only to participants, so please contact us for more information.

8. How much does the NDS Cost?

A one-year subscription to the NDS is \$250 for MBA members and \$450 for non-members and can be purchased at our online store¹ or at www.mba.org. Custom reports (by state, by loan type, by delinquency/ foreclosure measure, etc.) can be ordered by contacting MBAResearch@mba.org. Please check our NDS data products site² to see if a dataset that fits your purpose is available there.

9. Can I obtain the NDS data for free?

The quarterly press release is available to the public and provides highlights of each quarter’s results. The full report is available only to subscribers and participants.

10. What if I am a student, professor, elected official or member of the media — do I get the data for free?

No. However, discounts are available on a case by case basis depending on your affiliation and purpose for needing the data. Please reach out to the most appropriate office for more information:

Media Inquiries: mrobinson@mba.org

Professors / Students: MBAResearch@mba.org

SURVEY METHODOLOGY

11. What is a Market Coverage Estimate?

A Market Coverage Estimate is reported each quarter to indicate how much of the existing one- to four-unit first-lien residential mortgage market our survey covers. For example, if the NDS is estimated to cover 85 percent of the mortgage market, then 15 percent is not covered by the participants in our survey. The NDS covers the majority of the outstanding mortgage market (for an exact coverage number, please see the latest report), however our coverage estimate could change in any given quarter, depending on survey participation and industry developments. We will make appropriate announcements if coverage changes are significant.

12. Is the coverage estimate you provide at the national level the same coverage estimate that you give to each state and region?

No, coverage varies from state to state. This means two states may have different levels of participation in our survey. For example: the NDS may capture 95 percent of all loans in State A but may only capture 60 percent of all loans in State B. Furthermore, coverage within any given state varies based upon who participates. While we do not provide state-level coverage numbers, past analysis has indicated that coverage tends to be higher in highly populated metropolitan areas on the coasts and lower in rural areas. While this may not always be the case, it is a good rule of thumb.

13. How does your data compare to other sources of foreclosure and delinquency data?

We have published a DataNote³ which specifically discusses commonly used sources for foreclosure and delinquency data. Please contact MBAResearch@mba.org if you have any additional questions.

14. Are second liens included in your results?

No, the NDS only reports on one- to four-unit first-lien residential mortgages. Second liens are not included in this survey.

15. What measures does the NDS provide?

The NDS primarily provides delinquency and foreclosure measures, all given in rates. The delinquency measures are 30/60/90+ days past due as well as total past due. Our two measures of foreclosure are foreclosure starts rate and foreclosure inventory rate (differences between the two discussed below). The survey also provides the number of loans serviced and the seriously delinquent rate (which is the 90+ delinquency rate plus the foreclosure inventory rate).

16. I'm looking for the number of delinquencies, or number of loans in foreclosure. Can't I just take the Number of Loans Serviced and multiply it by the Total Past Due rate?

As mentioned, we estimate that our survey covers approximately 85–88 percent of the market on a combined and aggregated basis. There is no census of outstanding mortgages, so our estimate is necessarily based on a number of assumptions that we believe to be reasonable. In order to arrive at a number within a delinquency/foreclosure category, you would first have to multiply the number by the rate, and then inflate round that number based upon the coverage estimate. Importantly, coverage varies within loan types (i.e. some loan types have higher/lower coverage than others) and also varies (sometimes significantly) by region and state. Due to the variation in coverage in all parts of our survey, we encourage users to utilize the rates instead of trying to estimate a specific count.

In addition, the number of loans serviced is provided to give the public a general idea of how many loans our survey tracks during any given quarter. Quarter-over-quarter changes in the sample may be due to changes in the market and/or changes in participation rates.

17. Does your survey count and/or track loan modifications?

Loans in the modification process are included in our results. However, depending on the stage of modification a loan is in, it may be classified differently. Loans undergoing trial modifications are reported as delinquent, based on the term of the original loan contract. Loans with permanent modifications move into current status for as long as the new mortgage payments are current.

18. What happens if a permanently modified loan becomes delinquent again? How is it categorized?

It's the same as any other originated loan. As mentioned above, once a loan goes from trial modification to permanent modification it regains its "current" status. A borrower who defaulted on a permanently modified, "current" loan would first go into the 30 days past due bucket, then 60 days past due, 90+-days past due, etc.

19. So how does the NDS measure modification activity, whether it is trial or permanent?

NDS data does not include information on modification activity. The NDS only measures whether a loan is current, delinquent (if so, how delinquent) or starting/in the process of a foreclosure proceeding.

DELINQUENCY / FORECLOSURE BASICS

20. How do you define delinquency? Are there other industry views about when a mortgage is past due?

While the MBA methodology for calculating delinquency is practiced by many, there are other methodologies that differ in what constitutes a late-payment. The two generally accepted methodologies are the MBA methodology and the Office of Thrift Supervision (OTS) methodology. Andrew Davidson & Co., Inc. published a paper⁴ on the two schools of thought. The OTS Mortgage Metrics Report⁵ is another resource on the OTS methodology. All NDS materials use MBA methodology in their reported results.

21. What are the primary drivers of delinquency and foreclosure?

While there are a number of different reasons why borrowers fail to make timely payments on their mortgages, the primary driver of delinquency and foreclosure is loss of income. Other significant drivers behind mortgage delinquencies are death, disability and divorce.

22. What would cause a loan to move into a foreclosure category (Foreclosure Starts Rate/ Foreclosure Inventory)?

The foreclosure measures in the NDS capture only loans that have either just entered or that are currently at some point in the foreclosure process. In the quarter in which a loan has been referred to foreclosure, it is reported as a foreclosure start. From the foreclosure start, a loan remains in the foreclosure inventory until it either cures, or terminates through a sale of the property, potentially a short sale, a deed-in-lieu or a foreclosure sale.

23. At what points does a loan drop out of the foreclosure category?

If a borrower cures the delinquency by paying back the arrears, or enters a permanent modification, the loan returns to current status exiting foreclosure. On the other hand, if a foreclosure sale is completed whereby the home enters a servicer's REO inventory, or if goes to a short sale, there is no longer a lien against that property, and no longer a loan to track — therefore for the purposes of the NDS, REOs and short sales are not included in any of the foreclosure (or delinquency) measures.

24. Do the delinquency / foreclosure categories include bankruptcies?

Sometimes. Foreclosure and bankruptcy are separate and distinct actions. Borrowers file for bankruptcy to discharge unsecured debts. The foreclosure process transfers title in the property from the borrower to the lender as a result of the borrower's defaulting on their mortgage debt, a secured loan.

25. Does the foreclosure category include REOs?

No, since REO properties are an end result of foreclosure proceedings and there is no longer a mortgage, they are not tracked or counted in the NDS.

26. What is the difference between a Foreclosure Start and Foreclosure Inventory?

The difference between loans in the foreclosure starts bucket and those in the foreclosure inventory bucket is prior status. Loans upon which foreclosure proceedings were initiated after either being current, 30 days, 60 days or 90+ days delinquent are considered foreclosure starts. After a loan becomes a foreclosure start (moving from delinquent to foreclosure initiation), it is considered part of the foreclosure inventory (stock of loans already in foreclosure proceedings) in any subsequent quarter in which it remains in the foreclosure process.

27. Describe a typical foreclosure process?

- a. A foreclosure begins differently based on differing investor guidelines. Specific rules established by investors, such as Fannie Mae, Freddie Mac or insurers/ guarantors such as Federal Housing Administration and Veterans Administration clearly spell out how these guidelines, including specific timelines, in which foreclosures must be completed or penalties are assessed. We ask survey participants to note a foreclosure start according to their internal procedures for initiating a foreclosure proceeding. Typically this is when a referral is sent to a foreclosure attorney.
- b. The length of a foreclosure can vary significantly based on who is processing the foreclosure and the state where it is being processed. Foreclosure timelines can also vary significantly by firm and by state, particularly if the state has a judicial versus a non-judicial foreclosure regime.
- c. The foreclosure process ends when the loan cures, the home is sold (perhaps through a short sale), or when the servicer obtains title to the property either through a deed-in-lieu or a foreclosure sale. If the home is sold or the borrower loses title to the property, the loan is extinguished, and there is no longer a loan to track, so it drops out of our survey.

28. What primary factors could affect the rate at which a loan moves through the foreclosure process? Why do some states seem to take longer processing foreclosures?

State foreclosure laws are a primary factor in the length of time it takes to foreclose. States with judicial foreclosure systems typically take longer to complete the foreclosure process than those with non-judicial systems. This means that two states with the same foreclosure starts rates can have different foreclosure inventory rates.

FROM A TO Z: COMMONLY USED ACRONYMS

ARM Adjustable Rate Mortgage	NSA Non-Seasonally Adjusted
FHA Federal Housing Administration	REO Real Estate Owned
NDS National Delinquency Survey	SA Seasonally Adjusted
MBA Mortgage Bankers Association	VA Veteran's Administration

OTHER FAQs

29. Upon examination of other industry housing data, there appears to be a disconnect between quarterly mortgage origination volume and the change in mortgage loans serviced. Why?

There is no exact science when comparing quarterly originations volume and changes in the number of loans serviced. In addition, loans are removed from servicing portfolios at the same time that new loans are coming onboard. Another factor in any apparent volume disconnect is interim servicing. When loans are originated, there may be a period of 30–90 days before the loans are sold to a larger aggregator or in the secondary market. Thus, these new loans, while originated in a particular quarter, may not be reported in the NDS until the following quarter.

30. How do you define what is prime and what is subprime?

The prime and subprime criteria used in the NDS are based on survey participants' reporting of what they consider to be their prime or subprime servicing portfolio. Different servicers may make different determinations regarding the grade of their portfolios. Participants who service both prime and subprime loans report the results of each separately for maximum precision in the classification.

31. What is a seasonal adjustment? Why do you seasonally adjust the data? What seasonal adjustment methodology do you use?*

Most time series data are subject to seasonal variations, and data on the housing sector is certainly no exception. Housing starts, home sales (new and existing) and home prices all display a pronounced seasonality. It is therefore necessary to remove such seasonal effects from the data so that the underlying economic movements in the series can be better analyzed and clearly interpreted. The NDS uses the US Census Bureau's X-12-ARIMA Seasonal Adjustment Program.⁶ The Census Bureau also published a Frequently Asked Questions⁷ document specifically on seasonal adjustment.

32. What is "Shadow Inventory"?

The inventory of new and existing homes for sale is reported monthly by the Census Bureau and the National Association of Realtors, respectively. "Shadow inventory" refers to homes likely to come on the market due to the associated mortgages being delinquent or in the process of foreclosure, and is difficult to measure, primarily due to its lack of visibility. MBA considers the set of loans 90+ day delinquent or in the foreclosure process to be a reasonable estimate of the shadow inventory. Not every one of these loans will result in a distressed sale of the home. Offsetting this is the fact that some portion of the 30- and 60-day delinquent loans, which historically have tended to cure at a much higher rate, could ultimately transition into the foreclosure process. Other analysts have made different assumptions regarding what comprises the shadow inventory, and therefore have different estimates of its size.

* CAUTIONARY NOTE ON SEASONALLY ADJUSTED DATA:

Seasonally adjusted results should be viewed with a degree of caution because the statistical models behind the adjustments were estimated based on a much more benign environment. Since the current levels of delinquencies and foreclosures are far outside the range of most of the values used to build the models, the seasonally adjusted numbers may considerably overestimate or even underestimate the true long-term trends.

1. http://store.mba.org/ProductDetail.aspx?product_code=EC1-300020-DD-0
2. www.mba.org/ResearchandForecasts/ProductsandSurveys/NationalDelinquencySurvey.htm
3. www.mba.org/files/Research/July2008SourcesofForeclosureData.pdf
4. www.securitization.net/pdf/content/ADC_Delinquency_Apr05.pdf
5. <http://files.ots.treas.gov/481097.pdf>
6. www.census.gov/srd/www/x12a/
7. www.census.gov/const/www/faq2.html

DATA DEFINITIONS

Number of Loans Serviced

Includes all first mortgage loans secured by one- to four-unit residences that are serviced by participating companies. Loans that are not serviced by participants themselves are excluded.

Number of Loans Delinquent

As of the close of business on the last day of the quarter, the number of loans delinquent is reported using the following due date ranges, with 6/30/2010 as an example of the last day of the quarter:

Due between 5/02/2010 and 6/01/2010:

Report as "1 month" delinquent

Due between 4/02/2010 and 5/01/2010:

Report as "2 months" delinquent

Due 4/01/2010 or before:

Report as "3 or more months" delinquent

The delinquency measure DOES NOT include loans placed in foreclosure, they are reported separately.

Foreclosures Started

The number of loans for which foreclosure proceedings were started in the current quarter. INCLUDES deeds received "in lieu" of foreclosure and loans assigned directly to FHA, VA or other insurers, or investors.

Foreclosure Inventory

The number of loans in the process of foreclosure as of the last day of the quarter, regardless of the date the foreclosure procedure was initiated. Loans are classified "in foreclosure" according to investors' or local requirements. INCLUDES loans where the servicing has been suspended in accordance with any investor's foreclosure requirements. EXCLUDES loans where the foreclosure has been completed to the extent that the investor has acquired any of the following: title to the real estate, an entitling certificate, title subject to redemption or title awaiting transfer to FHA or VA.

VA One- to Four-Unit Loans

All one- to four-unit residential first mortgage loans that are guaranteed by the Veteran's Administration.

FHA One- to Four-Unit Loans

All types of FHA first mortgage loans secured by one- to four-unit properties. Fixed vs. ARM detail is available for FHA loans.

Conventional One- to Four-Unit Loans

Conventional mortgage loans including conforming and nonconforming, prime and subprime loans. For the purpose of this survey, conventional loans are any non-government (FHA or VA) loans. Fixed versus ARM detail is available for prime loans and subprime loans.

Adjustable Rate Mortgages (ARMs)

Loans that have a mortgage rate that adjusts according to a specified price index periodically and as agreed to at the inception of the loan. Includes five-year ARMs, three-year ARMs, one-year ARMs, interest-only mortgages, pay-option ARMs and other adjustable rate mortgages.

Prime and Subprime

The prime and subprime criteria used in the NDS are based on survey participants' reporting of what they consider to be their prime or subprime servicing portfolio, since internal servicing guidelines vary. Participants who service both prime and subprime loans report the results of each separately for maximum precision in the classification.