

For Immediate Release

Strategic defaults remain high, but relief may be in sight
*Experian–Oliver Wyman Market Intelligence Report finds first evidence of
break in key trends in mortgage landscape*

Costa Mesa, CA, and New York, NY, June 28, 2010 — According to the new Experian–Oliver Wyman Market Intelligence Report, strategic defaults continued as a high percentage of all mortgage delinquencies at 19 percent in the second quarter of 2009. While, overall, the broad trends observed in the first Experian–Oliver Wyman Market Intelligence Report on Strategic Defaults have continued into 2009, there is reason to believe the phenomenon may have peaked, or be close to peaking.

The first Experian–Oliver Wyman Market Intelligence Report demonstrated that strategic default occurs more in areas where home price declines have been the steepest. This trend continued into 2009. In California, strategic defaults are running 80 times higher than in 2005, and in Florida, 53 times higher.

The defining characteristics of strategic defaulters include:

- Higher number of first mortgages — Borrowers with multiple first mortgages, i.e., investors, show a higher incidence of strategic default.
- Higher VantageScore[®] — In the first half of 2009, 28 percent of super-prime delinquents (VantageScore between 901 and 990) became strategic defaulters, a 50 percent higher rate than in the overall delinquent population.
- Higher origination mortgage balance — Customers with higher mortgage origination balances are more likely to be strategic defaulters; this is true even after controlling for geography, number of first mortgages and VantageScore.
- Counterintuitive home-equity line default behavior — Strategic defaulters who also have home-equity lines are more likely to stay current on those lines prior to mortgage default. The report finds that 50 percent of strategic defaulters who went delinquent on their home-equity line of credit did so before they went delinquent on their mortgage, compared to 70 percent for the overall population.

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Data from the first half of 2009 may contain the first signs of a “break in the clouds.” The report shows that the absolute number of strategic defaults for the first half of the year, 355,000, as well as first-time mortgage delinquencies in general, declined in successive quarters in 2009, suggesting they may have peaked in Q4 2008.

“Both delinquency and strategic default — as we define these terms — continue at high levels, but in Q2 2009 we see the first evidence of a break in the upward trend. After a seasonal reduction in both measures from Q4 2008 to Q1 2009, the Q2 numbers then declined further, breaking the historical trend of quarter-over-quarter increases; however, we will need to analyze the data from Q3 and Q4 to validate this,” said Peter Carroll, Partner at Oliver Wyman.

The incidence of “cash-flow managers” rose from 20 percent in 2008 to 26 percent in the first half of 2009. Cash-flow managers are temporarily distressed borrowers whose payment behavior closely mimics strategic defaulters but they continue to make occasional payments on their mortgage, perhaps indicating their intention to get out of delinquency.

“Cash-flow managers would be better candidates for loan modification programs than strategic defaulters,” said Charles Chung, Experian’s General Manager of Decision Sciences. “They are likely to be in temporary distress and may also have financial resources which allow them to continue to pay their non-mortgage obligations. This clearly demonstrates a willingness to pay, and a loan modification that makes their mortgage payments more affordable is likely to be very effective.”

Experian and Oliver Wyman can provide insight on additional trends regarding strategic defaulters and cash-flow managers across credit bands, geographies and vintages.

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The Experian–Oliver Wyman Market Intelligence Reports comprise topical reports and quarterly reports designed to provide subscribers with timely, accurate and useful analytical information tools.

Topical reports are composed of customized analysis, peer benchmarking options and commentary on key issues facing the financial services industry. Quarterly recurring reports hone in on trends and provide exclusive commentary across a wide range of consumer lending products. Thus, the Experian–Oliver Wyman Market Intelligence Reports help provide corporate subscribers not only with granular data and comprehensive analysis, but also with tailored, distinct insight from the unique combination of Oliver Wyman’s strategic consulting expertise and Experian’s unparalleled information resources and data analytics tools.

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Media Contacts:

Jung Kim, Oliver Wyman, (646) 364-8355, jung.kim@oliverwyman.com

Christopher Fielder, Experian Public Relations, (224) 698-8628, christopher.fielder@experian.com

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