North Carolina Office of the Commissioner of Banks

NEWS RELEASE

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REDEFAULT RATES ON LOAN MODIFICATIONS ACTUALLY IMPROVING SAYS STATE FORECLOSURE PREVENTION WORKING GROUP

Without Stronger Foreclosure Prevention Programs, Foreclosures Will Continue to Significantly Outpace Efforts

RALEIGH— While the number of foreclosures continues to seriously outpace the number of loan modifications being made, there are reasons to be optimistic about the performance of those loan modifications. According to a report issued today by the State Foreclosure Prevention Working Group, recent loan modifications are performing better than modifications made earlier in the mortgage crisis.

Differing from some analysts that have predicted redefault rates as high as 65% or 75%, the State Working Group stated that the improvement in loan modification performance over the past year actually suggests that we will see lower redefault rates in the future. According to the data the group has collected from nine mortgage servicers, loans modified in 2009 are 40% to 50% less likely to be seriously delinquent six months after modification than loans modified during the same time period in 2008.

"As servicers have increased their use of payment reduction in making loan modifications, many more homeowners have succeeded in keeping their home," said Mark Pearce, Chief Deputy Commissioner of Banks. "In this fragile housing market, servicers should build on these positive results and further expand efforts to make sustainable loan modifications."

The Office of Thrift Supervision (OTS) and the Office of the Comptroller of Currency (OCC) recently reported a similar reduction in redefault rates in their Mortgage Metrics Report for the Fourth Quarter of 2009. The agencies reported that 48.1% of the loans modified in the third quarter of 2008 were 60 or more days delinquent six months after modification, but only 27.7% of the loans modified in the third quarter of 2009 became delinquent – a redefault rate drop of more than 40%.

The redefault rate is even lower for loan modifications that had significant principal reduction of more than 10% of the principal balance. A comparison of modifications with principal reductions made in August and September 2008 to modifications with principal reductions made in August and September 2009 showed that redefaults fell from 35.4% to just 12.9%. The State Working Group believes it is important for servicers to increase their strategic use of principal reduction to maximize the long-term success of loan modifications.

However, the State Working Group noted that despite the progress made on the sustainability of the loan modifications being made, far too many seriously delinquent loans were still not in any form of loss mitigation. Without improvements to foreclosure preventions efforts, the group anticipates that hundreds of thousands of these seriously delinquent homeowners could end in foreclosure.

“It is disappointing that three years into the foreclosure crisis, six out of ten struggling homeowners are still not receiving any loss mitigation assistance from their mortgage servicer,” said Pearce. “Improvements in outreach and communication are critical to gaining the fullest benefit of evolving foreclosure prevention options.”

Other Working Group findings include:

- foreclosures continue to outpace modifications – 6 out of 10 seriously delinquent borrowers are still not in any loss mitigation activity;
- the majority of loan modifications (89.3%) tracked by the Working Group for the first quarter of 2010 showed some reduction in payments, and 77.6% lowered the monthly payment by more than 10%;
- only 21.2% of loan modifications actually reduce the loan’s principal amount; and
- permanent loan modifications dipped in 2009 as servicers transitioned to HAMP.

The State Foreclosure Prevention Working Group, which consists of 12 state attorneys general (AZ, CA, CO, FL, IL, IA, MA, NV, NC, OH, TX, WA), bank regulators for NY, NC, and MD, and the Conference of State Bank Supervisors, was founded in 2007 and has issued four prior reports, which are available at http://www.csbs.org/regulatory/Pages/SFPWG.aspx.

North Carolina is expanding its efforts to assist homeowners avoid foreclosure. The State Home Foreclosure Prevention Project, managed by NCCOB, will expand on November 1, 2010, to include all home loans nearing foreclosure, not just subprime loans. In addition, the NC Housing Finance Agency will launch a new foreclosure prevention initiative later this fall to assist unemployed homeowners (http://www.nchfa.com/About/10Press/Aug4.aspx).

Homeowners facing foreclosure should contact North Carolina’s foreclosure prevention hotline at 866-234-4857 or visit www.fightncforeclosure.org.

NCCOB regulates state-chartered banks, savings and loans, trust companies, and more than 600 mortgage lenders/servicers/brokers and 6,800 loan officers, as well as numerous consumer finance companies, check-cashers, and other financial services. NCCOB is funded by industry fees and assessments and not taxpayer dollars.

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